SPRING 1966

# MONTANA BUSINESS QUARTERLY

BUREAU OF BUSINESS AND ECONOMIC RESEARCH
SCHOOL OF BUSINESS ADMINISTRATION
UNIVERSITY OF MONTANA, MISSOULA

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James L. Athearn, Dean

Norman E. Taylor, Director

Maxine C. Johnson, Assistant Director

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# In This Issue

# About the Authors

The Winter 1965 issue of the *Quarterly* featured a well-received report on "Background and Priorities for Legislative Reapportionment in Montana" by Dr. Ellis Waldron, Professor of Political Science at the University of Montana with Dr. Howard Reinhardt and Douglas Chaffey as co-authors. Professor Waldron now explores the next step in legislative reorganization—the proposed apportionment amendment to the state constitution which will appear on the November 1966 ballot.

Dr. Waldron has an A.B. degree from The Ohio State University, and M.A. and Ph.D. degrees in political science from the University of Wisconsin. He has taught political science at the University of Montana since 1950, except for the 1963-64 school year which he spent at the Harvard Law School as a Fellow in Law and Political Science. He is the author of a *Legislative Handbook*, prepared for the Montana Legislative Council in 1957; *Montana Politics Since 1864—An Atlas of Elections*, published by the University Press in 1958; and *Municipal Facilities and Services in Montana* (1961). He participated in the urban planning studies of the Upper Midwest Economic Study and contributed to its 1963 report, *The Why and How of Community Planning*.

Background material on Dr. John H. Wicks appeared in the Winter 1966 issue. Dr. Wicks, Assistant Professor of Economics, is a frequent contributor to the *Quarterly*, and in this issue continues his series of timely articles on state and local taxation.

Dr. Donald J. Emblen has been Professor of Business Administration at the University since 1945 and has played a leading role in the development of the School of Business Administration's outstanding accounting program. He received an A.B. degree in economics from Ohio University, an M.B.A. degree in accounting from the University of Pennsylvania, and a Ph.D. degree in finance from Columbia University.

Included in Dr. Emblen's wide professional experience are summer appointments as a Finance Fellow at the New York Stock Exchange and as a Fellow in the Harvard Case Study Seminar and the University of Chicago Seminar on New Developments in Accounting; a summer as a consultant to the

U. S. General Accounting Office in Washington, D.C.; and two years from 1957 to 1959 as technical advisor in business education to the University of Punjab, Lahore, Pakistan.

Professor Emblen is a member of the Montana Society of Certified Public Accountants and has served as a director and as its executive secretary. He is the author of a textbook, *Preparation of Consolidated Statements: A Simplified Approach,* and has written articles for a number of professional journals, including earlier issues of the *Montana Business Quarterly.*

Dr. Lawrence J. Hunt, who came to the University in the fall of 1964, has become a frequent contributor to the *Quarterly*, having previously written on the subjects of business simulation and business ethics. In this issue, Dr. Hunt discusses a matter of interest to many businessmen: how to increase the effectiveness of an advertising program. Background material about Professor Hunt appeared in the Winter 1966 issue.

Mr. Robert A. Watne, Research Assistant in the Bureau of Business and Economic Research is a 1964 graduate of the School of Business Administration, University of Montana. Prior to his graduation, he served as a student assistant in the Bureau for three years. This is his first article for the *Quarterly.*

The 1966 edition of the *Montana Trade Association Directory*, prepared by the Bureau of Business and Economic Research, is now available for distribution. This pocket-sized directory lists 78 trade associations together with their principal officers, their addresses and telephone numbers. There is no charge.

## *From the Director's Desk . . .*

The title page of the *Montana Business Quarterly* indicates that it is published by the Bureau of Business and Economic Research, School of Business Administration, University of Montana. On occasion, "Director's Desk" has discussed the School of Business Administration, its programs and goals, but the operation and objectives of the Bureau itself have never been described. Perhaps some of our readers would be interested in knowing more about the organization which produces the *Quarterly*.

The University of Montana Bureau of Business and Economic Research is one of approximately 75 such bureaus in American universities and colleges. The growth of these bureaus in the past 10 or 15 years has been astonishing; and as they have grown in size and number, the quality and sophistication of their research has also increased. Our Bureau is a member of the Associated University Bureaus of Business and Economic Research. This national organization sets criteria for membership and works to strengthen the programs of its member bureaus.

The University of Montana Bureau of Business and Economic Research began operations in 1948 as a part of the School of Business Administration. There had been a Bureau (on paper) prior to 1948, but there was no formal organization and no staff. Since 1948, when the first director of the Bureau was hired, it has been in continuous operation. When the School of Business Administration was departmentalized last year, the Bureau became one of the departments of the School.

Presumably, research organizations are established to fill some sort of need or to meet some objectives. We generally list four objectives or purposes for the Bureau of Business and Economic Research:

1. To provide businessmen with information useful in the operation of their businesses.
2. To present and interpret information on current business and economic developments in the state and the nation.

3. To make economic studies which will contribute to the most efficient use of Montana resources.
4. To encourage and assist faculty members and students in research which will be of value to the state of Montana and which will contribute to general knowledge in the areas of business and in economics and the related social sciences.

For Montana businessmen, or anyone else in need of economic information about the state, the Bureau of Business and Economic Research frequently provides one of only a few sources of assistance. Since the state of Montana has no central statistical service, the Bureau library includes standard published information from federal and state agencies, private research organizations, trade associations, as well as data developed by the Bureau itself—probably the most complete collection of economic information about Montana in the state.

The Bureau functions partly as a service organization, not only for business firms but for all kinds of individuals and groups: labor unions, chambers of commerce, state and local government agencies, school districts, civic organizations, and many others who need economic information about the state. If the service we perform for any of these groups involves only a letter or a phone call, or a few minutes' time, we make no charge. If considerable time or effort is involved, we charge on a cost plus overhead basis.

The service function of the Bureau will be expanded during the next year or so as it begins operations under the State Technical Services Act passed by Congress last fall. The purpose of the Act is to make available to businessmen information which would be helpful to them in the operation of their businesses—it includes technological and scientific information as well as information related to business management or economics. As reported in the last "Director's Desk," our Bureau has been designated as the coordinating agency for implementing the Act in Montana and we have been working with other schools and departments of the University of Montana and with Montana State University and the College of Mineral Science and Technology at Butte in developing possible programs. Recently we received a $25,000 planning grant for this purpose. Most of the activities under this Act will consist of seminars, short courses, bibliography preparation, and other clearing house functions.

Another of our objectives, and one on which we place considerable emphasis, consists of an attempt to present and interpret information on current business and economic developments in the state and the nation. We do this largely through the *Quarterly,* which we began publishing in the fall of 1962. The principal goal of the *Quarterly* is to provide reliable information on a wide range of thought-provoking and possibly controversial subjects, including business and economic conditions in Montana. We are pleased with the reception it has received, both in Montana and outside the state.

As a research organization in an academic institution, however, our chief interest lies in conducting research projects which may help us achieve our two major goals of making economic studies that will contribute to the efficient use of Montana resources and of encouraging and assisting faculty and students in research. With the growing demand for contract research, we are better able today to obtain funds to finance these objectives. Much of our work is done for state and federal agencies—the State Planning Board, the Montana Highway Commission, Bonneville Power Administration, the Small Business Administration, the Bureau of Reclamation, and the Bureau of Indian Affairs. Studies which involve a particular firm's problems, and are not of general interest, are referred to qualified faculty members who may then do the job on a private consulting basis.

Since the Bureau was established, we have published some 30 monographs on a great variety of subjects, including reports on the economy of the state, taxation, finance, recreation, community development, accounting, freight rate discrimination, and laws pertaining to small business.

In 1963, the Bureau published *A Pilot Study of Successful and Unsuccessful Small Business Enterprises Within Montana,* by Edward J. Chambers, a former director of the Bureau, and Raymond L. Gold of the University's Sociology Department. The study was an attempt to relate the small businessman's attitudes to business practices, and to determine what factors, both in procedures and attitudes, were most important to business success and failure in this part of the country. The study considered many variables, including the flexibility of the small businessman in adapting to changes in the nature and practice of his type of business, his ability to accommodate his operation to shifting market patterns, the strength of his desire to maintain a certain independence of action associated with small business ownership, his perceptions of fair and unfair competition, and his ability to respond to setbacks in his business. The results of the study were based on depth interviews with small businessmen around the state, whose names were given to us by banks and certified public accountants. As of December 31, 1965, the Small Business Administration, which financed the study, had received almost 60,000 requests for its summary of the report. Copies of the full report are available from the Bureau of Business and Economic Research; the price is $1.00.

In September, 1964, the Bureau published a work by Professor Edwin W. Briggs of the University of Montana Law School entitled *Legal Barriers to Competition in Montana State and Local Law*. In it, Professor Briggs discusses five Montana regulatory acts—the Unfair Practices Act, the Fair Trade Act (declared unconstitutional in 1961), the Barbers' Act, the Beauty Shop Act, and the Milk Control Act. Each act is the subject of a detailed analysis as to its legislative and administrative history, its current status, and its effect upon the market. Other statutes regulating nonprice competition are also discussed in a chapter on decisions of the Montana Supreme Court. This report also is available from the Bureau, at a cost of $3.00.

These are only two examples of the type of research studies done by the Bureau of Business and Economic Research. Frequently, as in the case of these reports, faculty members from other schools and departments of the University engage in research for the Bureau. Many of the *Quarterly* articles also are written by persons from other parts of the campus. Without this cooperation, the Bureau would be much less effective as a research organization.

More and more people are beginning to realize that there is great need for more research in economics and business at the state and regional levels; the Bureau of Business and Economic Research hopes to be able to greatly increase its contribution in these areas. Montana has a number of economic problems, and how it succeeds in solving them will affect the future of all of its people and institutions. We hope through our research efforts, that we can help in solving these problems.

Maxine C. Johnson

Assistant Director

# Montana's 1966 Legislative Apportionment Amendment

**ELLIS WALDRON**
**Professor of Political Science**
**University of Montana, Missoula**

A constitutional amendment relating to apportionment of the Montana legislative assembly will confront the state's voters in the November, 1966 general election. The voters will ratify or reject this amendment to the state constitution even as they elect members of the "new-style" reapportioned legislature which will convene in Helena January 2, 1967.[1]

The purpose of this article is to explore the meaning and possible consequences of this amendment. The Secretary of State soon will distribute a voter's pamphlet setting forth the existing and proposed constitutional language, but this official publication will give little practical guidance to the effects of the amendment. And the language on the ballot next November will give no explicit clues to some of the most important implications of the amendment.

So it is none too soon to explore this matter. Defeat of the amendment would not, as some might expect, turn back the course of reapportionment in Montana. Defeat of the amendment would limit the choices before the reapportioned 1967 legislature in its establishment of a continuing apportionment system for the future.

If ratified by the voters, the amendment would have four major consequences which will be explored in the following order:

1. Authorization of single-member legislative districts.

2. A plan to return the Montana senate to one senator for each county if the "Dirksen Amendment" to the national constitution should occur.

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[1]The amendment was proposed by Chapter 273, Laws of Montana 1965. Another proposed constitutional amendment to provide for continuity of state and local government in the event of "enemy attack" will also be on the ballot, proposed by Chapter 243, Laws of Montana 1965.

3. Repeal of "dead wood" provisions of the Montana constitution relating to legislative apportionment.

4. Change in the manner of filling legislative vacancies.

The proposed amendment to the Montana constitution will appear on the November ballot substantially in the following form:

> Section 2, Article VI of the constitution of the state of Montana is amended to read as follows:
>
> "Section 2. *(1) The senate and house of representatives of the legislative assembly each shall be apportioned on the basis of population.*
>
> *(2)* The legislative assembly *following each census* made by the authority of the United States, shall revise and adjust the apportionment for representatives *and senators* on the basis of such *census.*
>
> *(3) At such time as the constitution of the United States is amended or interpreted to permit apportionment of one house of a state legislative assembly on factors other than population, the senate of the legislative assembly shall be apportioned on the basis of one senator for each county."*
>
> Section 3, Article VI of the constitution of the state of Montana is amended to read as follows:
>
> "Section 3. *Senatorial and* representative districts may be altered from time to time as public convenience may require. When a *senatorial or* representative district shall be composed of two or more counties, they shall be contiguous, and the districts as compact as may be."
>
> Sections 4 and 45, Article V, and Sections 4, 5 and 6 of Article VI of the constitution of the State of Montana are repealed.

The italicized portions of Article VI, Sections 2 and 3 are new language, while the rest of these sections are carried over from the present sections. There will be no hint on the ballot that a whole sentence ("No county shall be divided in the formation of representative districts") will disappear from Article VI, Section 3. Nor will the texts of the five sections to be repealed be shown on the November ballot.[2]

As the 1965 Montana legislative assembly convened, Gover-

[2]The entire text of the "Explanatory Statement" prepared by the Attorney General to appear on the ballot is as follows: "This amendment would require the membership of both houses of the Montana legislature to be based on population so that each member of the legislature will represent approximately the same number of people."

nor Babcock declared that "the theory of 'one person—one vote' simply does not fit Montana," and advised the legislators that "we cannot apportion our State Senate without first having that [Montana] constitution amended by the people." In effect, the United States Supreme Court had already amended the Montana constitution by its rulings in June, 1964 that both houses of state legislatures must represent population according to one man, one vote principles.[3]

Within days, on January 13, 1965, a three-judge federal district court removed any doubts about constitutional provisions and obligations. In its initial order in the suit of *Herweg v. 39th Legislative Assembly*, the court declared that certain provisions of the Montana constitution relating to senate apportionment were invalid, and gave the legislative assembly a chance to enact reapportionment legislation. The legislators could not bring themselves to accept any of the various reapportionment proposals which were introduced, and the federal district court finished their job for them in August, 1965. The court proclaimed the reapportionment plan by which members will be elected in November, to serve in the 1967 legislature.[4]

For the 1965 legislators to reapportion to equitable population standards would have meant surrender of power by representatives of interests long accustomed to the exercise of that power; so legislative failure was understandable if disappointing. Perhaps even in a constitutional democracy, power is not surrendered unless others with a better claim to it are on the ground to insist upon its transfer.

But the 1965 legislators did make one positive response to their reapportionment obligations—they proposed the constitutional amendment which is the subject of this article. We return to consideration of its meaning and possible consequences.

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[3]Governor Babcock's remarks were in his "state of the state" message to the 39th Legislative Assembly, January 5, 1965. The Supreme Court decisions are mentioned in greater detail below, part 3.

[4]Foundations for these developments were explored by this writer and others in "Background and Priorities for Legislative Reapportionment in Montana," *Montana Business Quarterly*, Winter 1965, pp. 37-140. The final reapportionment order in *Herweg v. 39th Legislative Assembly* appears in 246 Federal Supplement 454 (August 1965). The district court also realigned Montana's two congressional districts to equalize their populations in *Roberts v. Babcock, 246 Fed. Supp. 396 (1965)*.

## 1. Clearing the Way for Single-Member Districts

The most important practical effect of this amendment is its silent repeal of the sentence in Article VI, Section 3, that "No county shall be divided in the formation of representative districts." This sentence is still valid law; and, as we have noticed, the language on the ballot next November will give no clue to the fact that it was simply dropped from the proposed revision of the section in which it appears.

The three-judge federal court reapportioned the legislature without nullifying this sentence; its reapportionment order employed whole counties and combinations of whole counties in prescribing the 1967 legislature.

Petitioners in the Herweg suit had requested invalidation of this sentence in their first appeal to the court in January, 1965; they later urged that its repeal would permit more truly representative reapportionment. Leaders of the 1965 assembly evidently agreed when they proposed to drop this constitutional restriction against dividing counties; they wished the 1967 legislative assembly to have freedom to establish single-member legislative districts by ordinary legislation.

Proponents of single-member legislative districts claim that this freedom to choose such districts justifies ratification of this amendment despite doubts about some of its other provisions. The writer of this article endorses this position.

The chance for legislative choice between single-member and multi-member districts will interest all Montana voters, rural as well as urban. In the 1967 legislative assembly, 93 of the 104 representatives will have been elected from multi-member house districts; and districts for 43 of the 56 counties could be affected by the choice. Voters in the 13 counties which will be in single-member districts next November have no permanent immunity from interest in this choice; each or all of these counties might be thrown together with others in a multi-member district in some future reapportionment.

If the 1967 legislature decides that future legislatures should continue to have about fifty senators and about one hundred representatives, legislative districts inevitably will continue in approximately the form and number worked out by the federal court for the 1967 session. The advantages of subdistricting within counties or districts will be a practical concern for most of the voters.

Next November each of 16 populous counties will elect from two to twelve representatives. Twenty-seven other counties will share their two or three representatives with from one to three other counties. In some of these multiple-county districts subdistricting would permit the attachment of part of one county to another if desired. Subdistricts would not have to follow county lines, but might follow precinct or school district lines to represent watersheds or local economic regions or other local factors deserving local representation—if this apportionment amendment is ratified, and if the legislature would then authorize such districts.

It may be useful at this point to identify the basic difference between single-member and multi-member districts as they have appeared in Montana.

*Single-member District:* "an electoral district from which a single legislator is chosen by a plurality vote."[5] Each voter votes for but one candidate to occupy the one seat for that district, in a particular legislative chamber. Many Montana counties have been single-member districts for house elections and a few will remain so. All counties were single-member districts for the election of a senator, and a few will remain so. Thus in the 1965 house of representatives there were 42 single-member districts; there are now 11 single-member house districts and 20 single-member senate districts for election of the 1967 legislature.

*Multi-member District:* an electoral district elects two or more legislators, each candidate running "at large" in the entire district against all other candidates. Each voter votes for as many candidates as will be elected from the district. The more populous counties of Montana always have been multi-member districts for elections to the state house of representatives; and nearly all of the more populous counties will become multi-member districts for the first time next November in their election of state senators. There will also be a number of multi-member districts made up of several counties—four such districts in the senate and nine in the house of representatives.

Specific examples of the several types of districts may be identified in the accompanying maps of senatorial and house districts for the 1967 legislative assembly. Each district out-

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[5]Jack Plano and Milton Greenberg, *The American Political Dictionary* (Holt, Rinehart, 1962), p. 113.

lined on the maps will elect a single representative or a single senator, unless a greater number is indicated.[6]

Single-member districts appear to have outnumbered multi-member districts among the state legislatures as in Congress for at least the past century. Yet most states, Montana included, have employed both forms side by side in one or both houses of their state legislatures.

A leading student of legislative representation has identified the problem of choice between the two kinds of districts in this way:

> . . . the very size of the constituency creates the problem of balancing the need for representation with the need for a short ballot. . . . the problem is essentially one of keeping the ballot short enough to be reasonable and practical and yet providing enough legislators to allow the house to be representative.[7]

This article seeks only to suggest several elements which seem relevant for this choice in Montana—elements which may help voters to decide whether they want the 1967 legislative assembly freed from the constitutional limitation on subdivision of counties in order to explore this choice of kinds of districts.

A year ago this writer pointed out that maximum differences between senate and house representation—one of the alleged advantages of a bicameral legislature—could be achieved by electing representatives from single-member districts while electing senators, even if there are to be several from a district, in "at large" contests from the whole district.[8] But other com-

[6]Montana is divided into two single-member districts for election and representation by members in the United States House of Representatives. The historic line between these two districts has been revised to equalize the populations between them; the new line is shown on a map in the accompanying text. Some of the complexity of this matter may be indicated by the fact that Montana is a single-member district for *election* of United States Senators since one only is elected "at large" from the entire state in any particular senatorial election; yet Montana may be regarded as a multi-member district *for purposes of representation* in the United States Senate. Professional political scientists have been known to garble this distinction—see Glendon Schubert and Charles Press: "Measuring Malapportionment," *The American Political Science Review*, June 1964, p. 303.

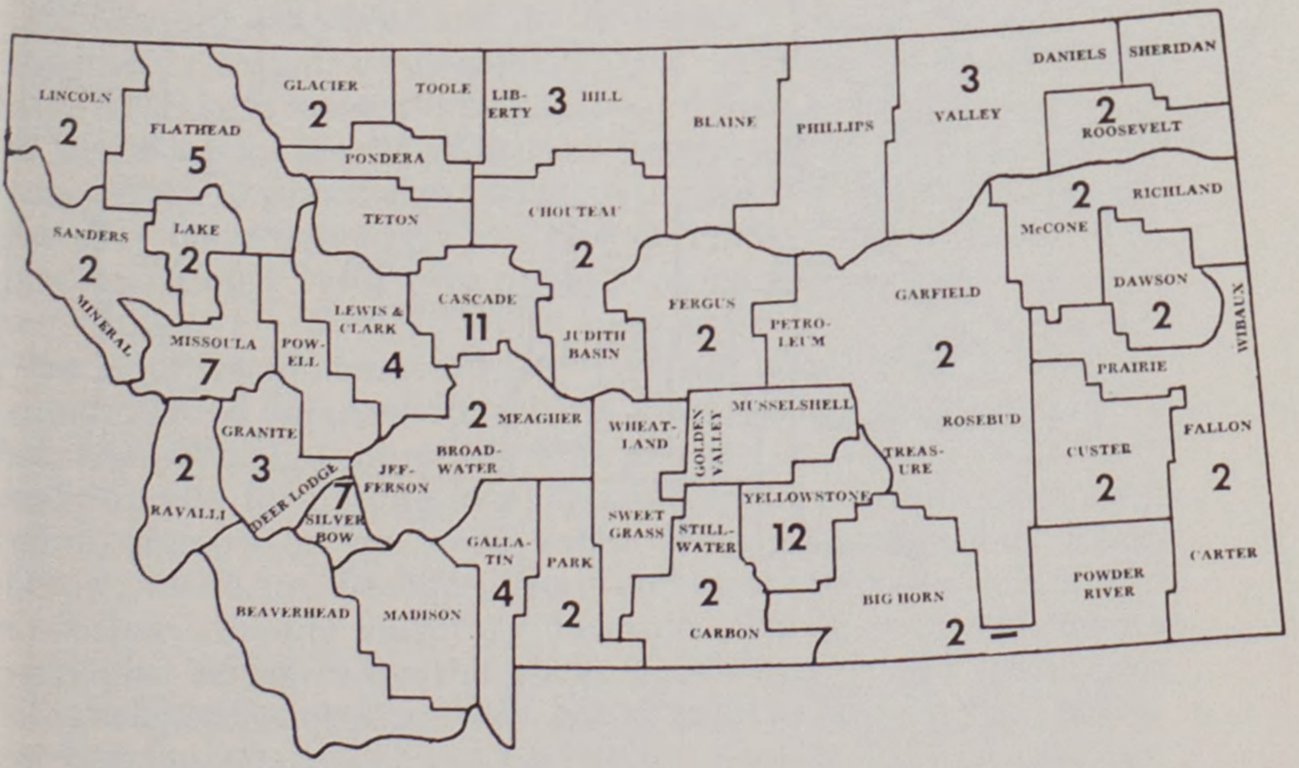
[7]Ruth Silva, "Compared Values of the Single- and the Multi-Member Legislative District," *Western Political Quarterly*, Vol. 17, No. 3 (1964), p. 509. The author notes that many of the alleged advantages and disadvantages of a particular form of district may be functions of size or of factors other than the number of representatives chosen.

[8]See *Montana Business Quarterly*, Winter, 1965, pp. 111-123.

## MONTANA REPRESENTATIVE DISTRICTS

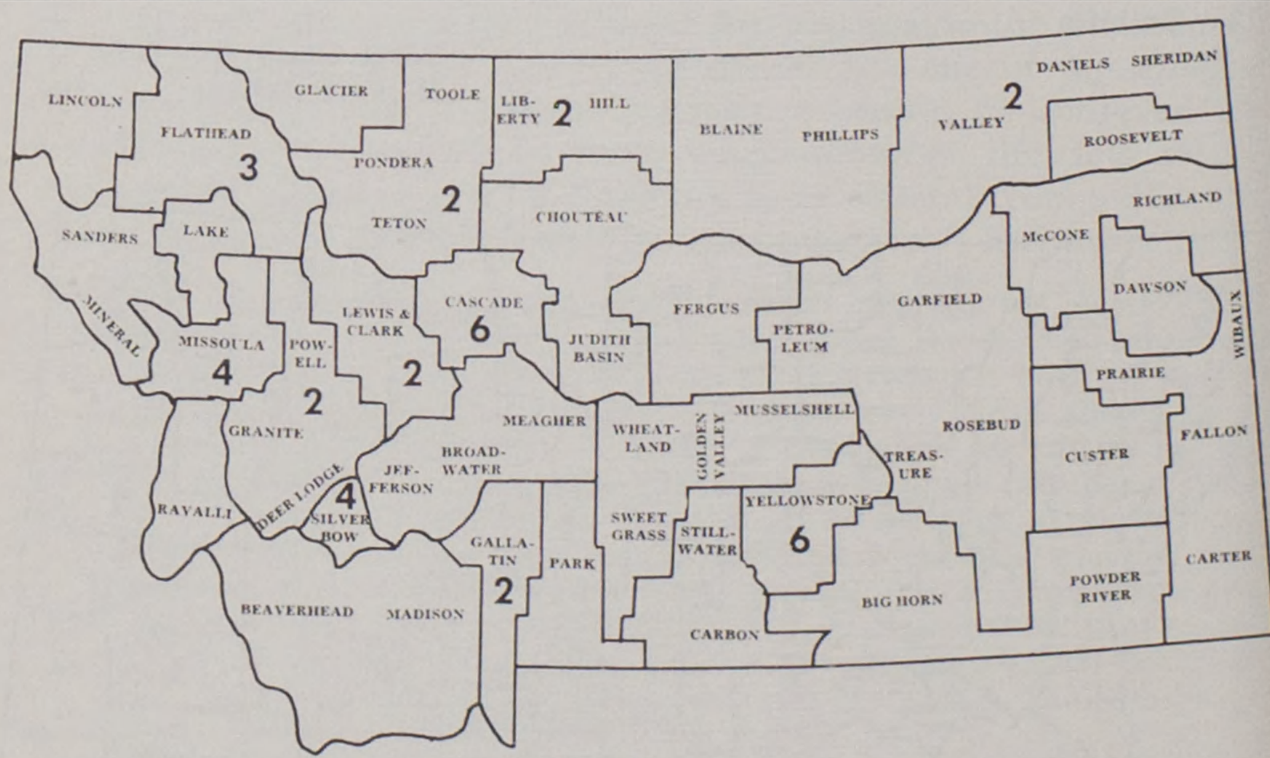
| Dist. No. | County or Counties | No. of Represen-tatives |
|---|---|---|
| 1 | Carter, Fallon, Wibaux, Prairie | 2 |
| 2 | Dawson | 2 |
| 3 | Richland, McCone | 2 |
| 4 | Roosevelt | 2 |
| 5A | Sheridan | 1 |
| 5B | Valley, Daniels | 3 |
| 6 | Rosebud, Treasure, Garfield, Petroleum | 2 |
| 7 | Custer | 2 |
| 8 | Big Horn, Powder River | 2 |
| 9 | Yellowstone | 12 |
| 10A | Phillips | 1 |
| 10B | Blaine | 1 |
| 11 | Fergus | 2 |
| 12A | Musselshell, Golden Valley | 1 |
| 12B | Wheatland, Sweet Grass | 1 |
| 13 | Carbon, Stillwater | 2 |
| 14 | Park | 2 |
| 15 | Gallatin | 4 |

| Dist. No. | County or Counties | No. of Represen-tatives |
|---|---|---|
| 16 | Jefferson, Broadwater, Meagher | 2 |
| 17 | Chouteau, Judith Basin | 2 |
| 18 | Cascade | 11 |
| 19 | Hill, Liberty | 3 |
| 20A | Toole | 1 |
| 20B | Pondera | 1 |
| 20C | Teton | 1 |
| 21 | Lewis and Clark | 4 |
| 22A | Powell | 1 |
| 22B | Deer Lodge, Granite | 3 |
| 23 | Silver Bow | 7 |
| 24A | Beaverhead | 1 |
| 24B | Madison | 1 |
| 25 | Ravalli | 2 |
| 26 | Missoula | 7 |
| 27 | Sanders, Mineral | 2 |
| 28 | Lake | 2 |
| 29 | Glacier | 2 |
| 30 | Flathead | 5 |
| 31 | Lincoln | 2 |
| | | — |
| | Total State Representatives | 104 |

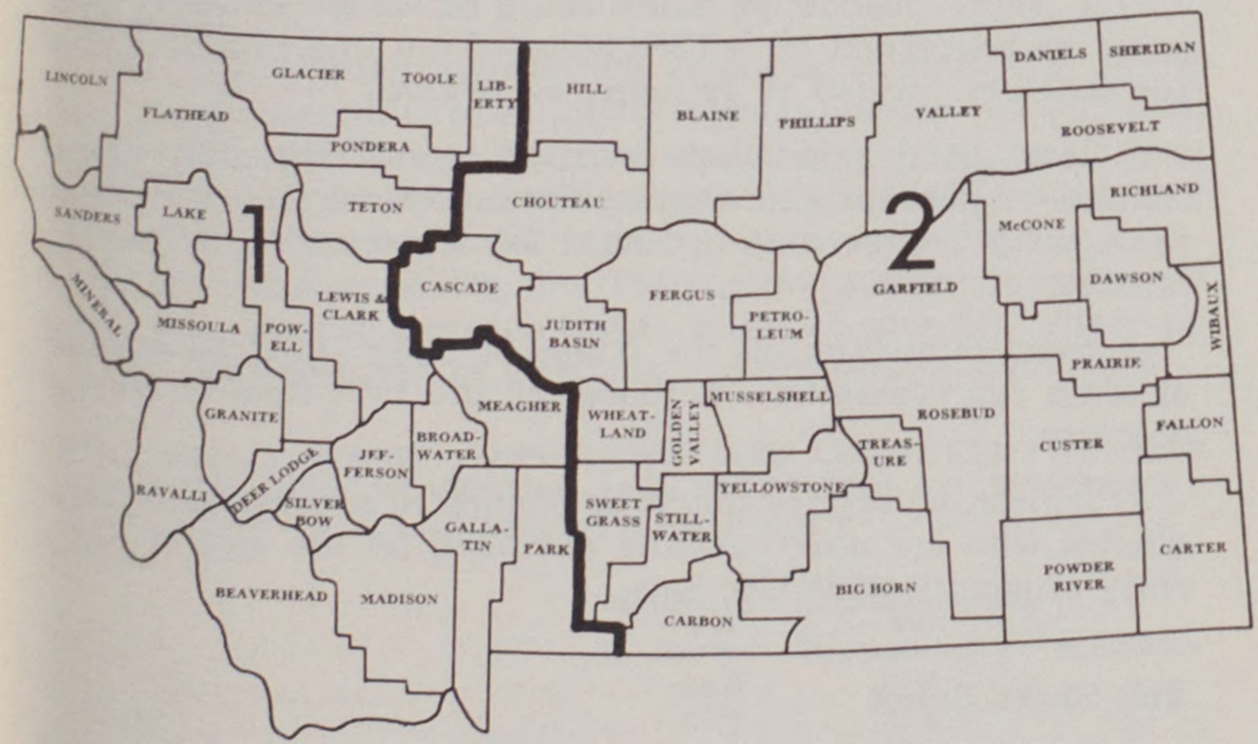


## MONTANA SENATORIAL DISTRICTS

| Dist. No. | County or Counties | No. of Senators |
|---|---|---|
| 1 | Carter, Fallon, Wibaux, Prairie | 1 |
| 2 | Dawson | 1 |
| 3 | Richland, McCone | 1 |
| 4 | Roosevelt | 1 |
| 5 | Valley, Daniels, Sheridan | 2 |
| 6 | Rosebud, Treasure, Garfield, Petroleum | 1 |
| 7 | Custer | 1 |
| 8 | Big Horn, Powder River | 1 |
| 9 | Yellowstone | 6 |
| 10 | Phillips, Blaine | 1 |
| 11 | Fergus | 1 |
| 12 | Musselshell, Golden Valley, Wheatland, Sweet Grass | 1 |
| 13 | Carbon, Stillwater | 1 |
| 14 | Park | 1 |
| 15 | Gallatin | 2 |
| 16 | Jefferson, Broadwater, Meagher | 1 |
| 17 | Chouteau, Judith Basin | 1 |
| 18 | Cascade | 6 |
| 19 | Hill, Liberty | 2 |
| 20 | Toole, Pondera, Teton | 2 |
| 21 | Lewis and Clark | 2 |
| 22 | Deer Lodge, Powell, Granite | 2 |
| 23 | Silver Bow | 4 |
| 24 | Beaverhead, Madison | 1 |
| 25 | Ravalli | 1 |
| 26 | Missoula | 4 |
| 27 | Sanders, Mineral | 1 |
| 28 | Lake | 1 |
| 29 | Glacier | 1 |
| 30 | Flathead | 3 |
| 31 | Lincoln | 1 |
| | Total State Senators | 55 |



**MONTANA CONGRESSIONAL DISTRICTS, FOR ELECTIONS NOVEMBER 1966**




Glacier, Liberty, Meagher, Park, Pondera, Teton and Toole Counties were put in the western, or First Congressional District by order of a three-judge federal court in *Roberts v. Babcock*, 246 Fed. Supp. 396 (1965).

binations are possible, and indeed a number of possible arrangements might be considered for subdivision of districts. Some observers have suggested use of single-member districts for the Montana senate as well as for the house. All such views rest on notions about size and structure of the legislature which now may be reviewed by the 1967 assembly with almost a free hand—particularly if this apportionment amendment is ratified.

An additional consideration involves who will define the boundaries of subdistricts within counties or multiple-county districts. Without pursuing this matter at this point, much could be said for having local districting done either by county commissioners or by some other local apportionment commission made up, perhaps, from commissioners and aldermen according to some statutory formula. There seems to be no particular reason why the state legislature should undertake local subdistricting since this would involve largely local political considerations.

Principal values to be advanced by single-member districts in Montana for one or both houses would include these:

a) a "short" legislative ballot could be achieved. Each voter could be concerned with the choice of but one representative (or senator) instead of as many as twelve.

b) local party minorities could be more adequately represented—or perhaps gain representation for the first time. But third-party representation might be discouraged by single-member districts.

c) rural minorities on the fringe of cities could be assured of some representation—perhaps for the first time in several counties.

d) legislative service might be opened to some possible candidates who are now virtually excluded by the cost or difficulty of county-wide elections.

## The Short Ballot

In November, 1966, voters in Cascade and Yellowstone counties will elect six senators each, while there will be eleven representatives elected from the Great Falls area and twelve from the Billings area. Missoula county, the third largest, will elect four senators and seven representatives.

Since all legislators in 1966, as in the past, must be elected from their entire county or group of counties, voters in the most populous counties thus will choose next November among lists of twenty-four (Yellowstone), twenty-two (Cascade) and fourteen (Missoula) house nominees of the two major parties—assuming that all seats are contested, and that there is no third party on the ballot.

Such a long ballot scarcely permits voting on the basis of reasonable acquaintance with more than a few of the candidates. Straight party-line voting will be encouraged by such lists, whether or not a party—either party—has managed to round up from seven to a dozen attractive house candidates. There will be a tendency for the entire house delegation from such districts to represent whichever party happens to poll a county-wide plurality, no matter how strong the minority party may be. Able, experienced candidates of the minority party will tend to be displaced by untried candidates who managed to survive in the majority party primary. This tendency has long been apparent in house representation of the larger Montana cities even when they elected substantially fewer representatives than they will under the new apportionment.

The 1964 Montana legislative elections support the notion that a long legislative ballot discourages voter participation even in counties where the rate of voting is high, and where all seats are contested. Voting appears to fall off measurably if more than one legislator is to be chosen in a district.

In the following tables, the 1964 vote for senator is compared with the vote for representatives in all 22 counties where all seats were contested in elections to both senate and house:

**VOTE FOR A SINGLE REPRESENTATIVE COMPARED TO VOTE FOR SENATOR, NOVEMBER 1964 ELECTIONS TO MONTANA LEGISLATIVE ASSEMBLY**[9]

| County | Percent of Registered Voters Who Voted: For Senator | For Representative | Difference |
|---|---|---|---|
| Big Horn | 83.9 | 83.5 | .4 |
| Carbon | 86.6 | 85.2 | 1.4 |
| Daniels | 91.3 | 91.0 | .3 |
| Dawson | 88.1 | 86.4 | 1.7 |
| Garfield | 91.8 | 91.5 | .3 |
| Glacier | 80.9 | 80.7 | .2 |
| Golden Valley | 90.2 | 90.5 | —.3 |
| Liberty | 89.1 | 89.9 | —.8 |
| McCone | 93.1 | 93.7 | —.6 |
| Musselshell | 86.8 | 86.3 | .5 |
| Phillips | 89.0 | 88.8 | .2 |
| Pondera | 88.4 | 88.1 | .3 |
| Powder River | 87.4 | 86.3 | 1.1 |
| Powell | 88.5 | 87.2 | 1.3 |
| Prairie | 84.1 | 88.6 | —4.5 |
| Sweet Grass | 97.7 | 96.2 | 1.5 |
| Mean Diff. | | | 1.875 |

Sixteen counties elected one senator and one representative in 1964, with all seats contested. In four of these counties more votes were cast for the representative than for the senator. In the other twelve fewer votes were cast for representative; but in none of these counties was the drop from senate vote more

[9]Total vote for candidates to the single senate seat and to the single house seat is shown as a percentage of the total registered vote of 1964, to give a *rate* of voting for each office. Statistics for the election were secured directly from county clerks.

than two percent. Stated differently, in 16 single-member counties the house vote ranged from 4.5 percent greater to 1.7 percent less than the senate vote. The average of differences in vote for the 16 counties was 1.87 percent.

**VOTE FOR TWO OR MORE REPRESENTATIVES COMPARED TO VOTE FOR SENATOR, NOVEMBER 1964 ELECTIONS TO MONTANA LEGISLATIVE ASSEMBLY**[10]

| County and No. Reps. Elected | Percent of Registered Voters Who Voted: For Senator | For Representatives (Average Vote) | Difference |
|---|---|---|---|
| Custer—2 | 96.6 | 80.5 | 16.1 |
| Gallatin—3 | 85.4 | 82.4 | 3.0 |
| Hill—2 | 85.9 | 81.8 | 4.1 |
| Lake—2 | 86.6 | 82.0 | 4.6 |
| Lewis and Clark—3 | 83.7 | 81.6 | 2.1 |
| Park—2 | 88.3 | 84.5 | 3.8 |
| Mean Diff. | | | 5.617 |

[10]Computations as in the previous table, except that the total vote for all representatives was divided by the number of representatives elected to get a *rate* of voting comparable to the *rate* of voting for the single senate seat.

In six counties whose voters elected more than one representative, and a single senator, with all seats contested, the average vote for representatives was less than the vote for senator in each instance; and the range was from 2.1 percent to 16.1 percent less for representatives than for senator. The average of differences between vote for representatives and for senator was 5.61 percent.

The general level of voter participation in all of these counties was quite high. The upper range of participation in some of the counties was a remarkable 96.6 percent for senator in Custer County, and 97.7 percent for senator in Sweet Grass County. In some counties the rate of voting dropped sharply in the absence of contest for legislative seats—to less than 70 percent in several counties and to less than 50 percent in one county.

The comparatively high rate of voting for a single representative may be taken as evidence of another point frequently urged in favor of single-member representative districts: that the voter-constituent feels a much closer and more intimate relationship to a single identifiable representative than he does to any one among a group of representatives. Critics of the single-member district may argue that this personal factor will reduce party discipline over representatives from such districts; the need to balance such considerations makes choice of kinds of legislative districts ultimately an uncertain and complex matter of public policy.

**Improved Minority Party Representation**

With smaller single-member districts, or subdistricts within county-wide districts, a party which enjoys local strength in some precincts or subdistricts or in secondary towns may be able to secure some representation of such local groupings even in the teeth of a county-wide majority for the other party. Competitive two-party politics might be encouraged by single-member districts in some such areas—Republicans in Silver Bow County, and Democrats in Yellowstone County are examples which come to mind.

**Improved Representation of Rural and Suburban Minorities**

Divisions of the more populous counties into subdistricts also will permit minority representation of another sort which is now discouraged. In Missoula County, for example, five or six of the seven new house representatives might be elected from the urban area, while subdistricting could assign one or possibly two of the seven seats to the outlying rural areas of the county. It is true that some residents of rural areas have been elected from these urban counties in the past, but there is nothing to assure such representation when voting is county-wide and the great majority of such votes are held by urban voters.

With subdistricting, it could be made fairly certain rather than unlikely that some representatives would be elected from the rural areas surrounding the cities. Such a pattern across the state would offset some of the shift of representation from rural to urban voters. Some representation of secondary towns near the largest cities would be possible where these voters seldom, if ever, have been represented by persons of their own choice in the county-wide election system.

**New Opportunities for Legislative Service?**

It is widely recognized that legislative service in a state with a short-session legislature is limited to those persons who can afford to absent themselves from home and from regular employment for several months every other year. It may not be so apparent that large multi-member representative districts in the more populous counties have discouraged, and will increasingly discourage legislative service by persons who might assume the more modest burdens of campaigning in a relatively small single-member district.[11]

The problems of campaigning are particularly acute for the person entering a legislative campaign for the first time—and there must always be many of these when approximately half of the persons who serve one term in the Montana legislature do not return for a second term. In the populous multi-member districts the problem of the new recruit is measured not only by the relatively large number of voters to be reached in a county-wide campaign; the task is further complicated by the need to distinguish one's identity amidst a lengthy list of candidates. This may seem both formidable and costly.

A relatively small district, comprising at most a few precincts or a neighborhood within an urbanized county, with a choice to be made between but two candidates in the final election, might make legislative campaigning and election seem feasible for some, perhaps especially women, who could manage the time for legislative service but who shrink from the costs and exertions of county-wide campaigning.

Of course the logic of small single-member districts cuts two ways. A promising candidate, popular throughout his county, might not be able to muster a majority among his immediate neighbors. Opponents of small districts argue that they tend to elect persons with petty local interests rather than persons able to see and represent a larger view. Yet this argument may apply to the representatives from the 11 county-wide single-member districts who will serve in 1967. Each of them will represent no more constituents than would any one of the delegates from larger cities. And legislators from some counties of small population are not called upon to represent the

[11]Any pattern of representation will affect eligibility for legislative service; and the creation of several expansive districts in eastern Montana may also limit recruitment to legislative service. But in terms of numbers involved, the problems of campaigning in multi-member districts will affect 93 of the 104 representatives to be elected in 1966.

variety of interests which will be found in almost any substantial portion of an urban community or a more populous county.

If senate representation should remain county-wide in the new legislature, such senatorial districts would tend to offset any overly local horizons of house members from smaller single-member districts. And if the senate terms remain four years as well, such longer-term, county-wide districts would appeal to the prominent and experienced citizen who could win a legislative election except for his immediate neighbors.

Intricate questions of locally divergent significance are involved in such choices of one kind of district as against another. Full exploration of these questions is beyond the scope of this article. But adoption of the apportionment amendment will free the 1967 legislative assembly to consider all of these factors on an even footing, unhampered by constitutional prohibitions against the subdistricting of populous counties.

## 2. *Anticipating the Dirksen Amendment*

The curious third part of the proposed Article VI, Section 2, anticipates adoption of the "Dirksen Amendment" to the national constitution, which would release one house of state legislatures from representation of population. In 1965, senators from Montana's smaller counties hoped that the Dirksen Amendment might be adopted, so that their counties might once again have a senator apiece regardless of their population.

This provision of the Montana constitutional amendment would have practical effect only if the present national apportionment standard is relaxed. But the only change in the national law which may reasonably be expected would allow at most modest departures from strict apportionment to population, for such matters as local political subdivisions or local geographic or economic factors.

In its 1966 form, the Dirksen Amendment promises little relief for that little group of states, including Montana, which organized one state legislative chamber in total disregard of population. Senator Dirksen's Senate Joint Resolution 103 now would allow representation in one house of a state legislature on the basis of "population, geography and political subdivisions"—a population-*and* formula, not a population-*or* formula.

Congressional submission of the Dirksen Amendment to the states for ratification seems unlikely, and its ratification, if so submitted, even more remote, so rapidly have state legislatures and congressional districts been reapportioned to population in the past two years.[12]

The future of the Dirksen Amendment is at best speculative in the spring of 1966. By November, the voters will have a much better notion of its prospects. But it seems to this writer that departure from strict representation of population is more likely to come by gradual judicial interpretation than by formal constitutional amendment.*

This provision of the proposed Montana constitutional amendment promises future trouble if the national standard of apportionment is modified either by formal amendment or by judicial interpretation of the one man, one vote principle.

Within the language of the proposed Article VI, Section 2, who in Montana will decide whether a modest change in national law is sufficient "to permit apportionment of one house . . . on factors other than population?" If the Montana senate would then be reapportioned, as it must be, not on a modified-population basis but in total disregard of population with assignment of one senator only to each county, would not such a senate once again be unconstitutional?[13]

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[12]The *Christian Science Monitor,* February 17, 1966, reported that Congressional redistricting had been completed in 24 states and seemed unnecessary in 14 other states; changes would be required in but a scattering of Congressional districts in 12 states where such reapportionment still was necessary but not completed. It may be noted that a favorable vote on the Dirksen Amendment is not much more likely in the United States Senate than in the House of Representatives, because statewide urban majorities captured senate seats in many states before reapportionment adjusted house districts to population. Moreover, state legislatures in just 13 states can block ratification of any proposed amendment to the United States Constitution; reapportionment of state legislatures will have made at least that many urban-controlled assemblies inhospitable to any form of Dirksen Amendment which would seriously qualify urban dominance—long before such a proposal might reach them for consideration.

*This analysis of the Dirksen Amendment has been sustained by the Senate's second defeat of the measure on April 20, 1966. Senator Dirksen said he would never give up, but Majority leader Mike Mansfield was quoted as saying that "this will be the end." *The Missoulian,* April 21, 1966.

[13]When first proposed as Senate Bill 122 on February 19, 1965, this section of the proposed Montana amendment would have concluded with the words "the senate of the legislative assembly may be so apportioned." That language would have allowed the Montana senate to follow any permissible departure from population standards; but this

### 3. *Pruning Dead Wood*

When the United States Supreme Court ruled in June 1964[14] that all houses of state legislatures must represent population equitably, it was only a matter of time and process for some court to hold that several provisions of the Montana state constitution were incompatible with this requirement.[15]

The Montana ruling came during the first days of the 1965 legislative assembly in the case of *Herweg v. 39th Legislative Assembly.* A three-judge federal court found that apportionment in both houses denied equal representation of population and that several provisions of the state constitution relating to senate apportionment were invalid. When the legislature failed to reapportion itself the federal court in August 1965 announced the senate and house districts from which assemblymen would be elected in November 1966.[16] Candidates have been filing for the legislative primaries to be held in these districts in August.

The fact that five sections of the state constitution were involved in the now invalid one-senator-per-county system may reflect the bitter struggle which racked the 1889 Montana Constitutional Convention.

Article V, Section 4, established the first legislative assembly, but two of its provisions have had continuing significance. The second paragraph required that "there shall be no more than one senator from each county." This clearly stands in the way of equitable representation of population. The second and third paragraphs of this section established overlapping terms for senators, half to be elected in each biennial general election. Repeal of this entire section would remove the constitutional requirement for overlapping senate terms, leaving this to be

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did not satisfy powerful senators from several of the state's least populous counties. At their insistence the proposal was changed to its present form: "the senate of the legislative assembly shall be apportioned on the basis of one senator for each county."

[14] *Reynolds v. Sims*, 377 U.S. 533 (1964) and associated cases, were considered with their implications for Montana in the *Montana Business Quarterly*, Winter 1965, pp. 96-105.

[15] The "federal supremacy" article of the United States Constitution (Article VI, Section 2) assures that valid national law shall prevail against incompatible state law even if that law be a state constitutional provision; and this provision binds judges in state courts.

[16] The initial order was given January 13, 1965; the final order establishing the districts was released August 6, 1965, and appears in 246 Federal Supplement 454 (1965).

arranged by ordinary statute. Thus it may become possible (but not likely) for all senators to be elected either concurrently with the governor, or all in "off-year" elections.

Article VI, Section 4, provided that "whenever new counties are created, each of said counties shall be entitled to one senator, but in no case shall a senatorial district consist of more than one county." In its literal terms this section does not prevent the addition of senators to counties with larger population; but this would make a very large senate if apportioned to population in multiples of the least populous county. If Petroleum County were to have one senator of its own, Yellowstone County would be entitled to somewhere between 50 and 100 senators. Read in conjunction with Article V, Section 4, this section seems to be compatible with any reasonable scheme for the senate representation based upon population.

Article VI, Sections 5 and 6, established the original senate and representative districts and apportioned senators and representatives to these districts. These sections appear to have no contemporary significance and they probably contain nothing incompatible with equitable reapportionment. They are dead wood better removed from the constitution.[17]

Judicial invalidation of these constitutional provisions in 1965 destroyed the constitutional requirements as to size of the Montana senate. Formal removal of these provisions from the constitution should make it doubly clear that future legislative assemblies will have a completely free hand to change the entire contours of the legislature.

Understandably, and in the judgment of this writer properly, the three-judge federal district court disturbed the size and general contours of the Montana legislative assembly as little as possible, while making it represent population equitably.

Now it is possible to review the whole question of the proper

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[17] Article VI, Section 6, provided for joint or "floterial" house representation of three pairs of counties by three representatives. This suggests the fact that the invalidity of apportionment in the House of Representatives was a product of legislative policy rather than constitutional requirement. In 1895, the legislative assembly abandoned joint representation of multiple-county districts and initiated the practice to assign a first representative to each county regardless of its population. Thus in recent times only about two-fifths of the house membership has been assigned to counties according to their population. This history was examined in the *Montana Business Quarterly*, Winter 1965, pp. 54-61.

size of both houses of the legislature. It may be found desirable to reduce the senate to half or two-thirds of its present size—and to reduce the size of the house of representatives in some comparable proportion.

## 4. *Filling Legislative Vacancies*

The 1889 Constitution provided in Article V, Section 45, that vacancies in legislative seats would be filled by election on call of the governor. This was amended in 1932 so that legislative vacancies from death would be filled "by appointment by the board of county commissioners of the county from which such vacancy occurs." Vacancies for other causes still would be filled by election.

The 1965 legislative assembly recognized that some counties of small population must share their senators and representatives with other counties in any legislature equitably apportioned to population. Which county commissioners would fill vacancies in legislative districts comprising more than one county? Simple repeal of the entire Section 45 is proposed.

How will legislative vacancies be filled if Section 45 is repealed? Article VII, Section 7, gives the governor appointive power for "all officers whose offices are established by this constitution, or which may be created by law, and whose appointment or election is not otherwise provided for."

Are legislators "officers" within the terms of this section which was evidently designed for executive and administrative positions?

Would statutory provision to fill legislative vacancies exempt such vacancies from the provisions of Article VII, Section 7, because they would be "otherwise provided for?" Or must the "otherwise" be a constitutional provision?

If Article VII, Section 7, governs legislative vacancies, a number of questions still might arise. The governor would "nominate, and by and with the consent of the senate, appoint . . ." if the senate were in session. This seems to cover vacancies which arise during the first months of a legislative term, and to assure representation of the district during the legislative session. But should the governor appoint a replacement from the same party as that of the legislator originally elected? Or from the party which controls the senate? Or from his own party?

What will happen if a senator dies or resigns soon after adjournment of the first legislative session in his four-year term? Should the governor fill his seat by appointment for three more years and a second legislative session when the district could elect a replacement at the next general election to sit by election in the second legislative session of the term?

Obviously, simple repeal of Article V, Section 45, or application of Article VII, Section 7, to the filling of legislative vacancies does not furnish satisfactory long-range solution of this matter. With all of its admitted limitations, re-enactment of something like the original constitutional provision for filling legislative vacancies (by special election at the call of the governor) might have been more desirable than to leave the constitution without specific provision for this matter.

However, there is a reasonable chance that the 1967 legislative assembly can propose a constitutional solution before a serious contest arises over the filling of legislative vacancies by gubernatorial appointment under Article VII, Section 7. On balance, the possibility of such a dispute during the next biennium probably does not warrant defeat of this entire amendment.

## *Conclusion*

This proposed apportionment amendment to the Montana constitution confronts the thoughtful voter with an interesting set of choices next November.

The most significant choice balances the chance for establishment of single-member legislative districts across the state against the chance of future trouble over filling legislative vacancies, and over composition of the senate in case the Dirksen Amendment should be added to the national constitution.

Constitutional purists may argue that single-member districting for populous counties can wait another two years, in order to keep language like the proposed third part of Article VI, Section 2, out of the constitution.

Proponents of single-member districting will urge that their goal should be accomplished in 1967, before the preponderance of multi-member districts becomes entrenched as a "natural" and desirable state of affairs.

This writer will vote for the amendment, believing that the 1967 legislative assembly should have a free hand to explore all desirable modes of districting for legislative elections; that the difficulties threatened by the Dirksen Amendment are not likely to become realities; and that disputes over filling one or two legislative vacancies are capable of resolution in the courts while the legislative assembly works out a long-range solution for that occasional problem.

# A Comparison of Expenditures: Montana, the National State Averages and the Regional Averages

JOHN H. WICKS
Assistant Professor of Economics
University of Montana, Missoula

## *Introduction*

What do Montana taxes pay for? And how do these expenditures compare with other states in the United States and with other states in the Rocky Mountain region? The answers look easy: all you have to do is add up what this state spent—in total and in specific outlays—and compare the figures with what other states spent. Unfortunately, the answers are not that easy.

Certainly we can set down (and in this article we do) what was *spent* in Montana in 1964. But how much of that was Montana tax money and how much was federal grants? How much came from the state cash register and how much out of local (city, county, and school district, for example) tills? *Expenditure* (what a governmental unit spends) is not simply what it taxes its citizens and then puts out directly for highways, schools and hospitals. Montana, for instance, spent a total of $301.5 million in 1964; $73.5 million of that came from the federal government, $102.3 million from the state, and $125.7 million from local units. The same is true in varying degrees for all other states.

It is also impossible to declare from looking at the raw statistics whether certain expenditures are wise or foolish. Should Rhode Island spend the same amount on highways as Montana? Should Nevada spend an amount comparable to California's on schools, regardless of the number of students? Obviously not. And even if we could find states with roughly the same area and population, it is still a state's own prerogative to decide how to spend money: one state may be coming from farther behind in the matter of health and welfare than another. The people of a state with a huge unemployment problem are going to be more interested in insurance factors than another state that may be more concerned about slum clearance. This article presents factual data only; it leaves the evaluation of expenditures and the accompanying need for taxes to the reader, for such evaluation rests primarily on value judgments.

But comparisons of state expenditures are revealing and necessary before public policy makers can authorize expenditures and search for revenues to finance the expenditures—if they keep the necessary distortions in mind. Regardless of revenue sources, comparisons of expenditures with other states may help to evaluate current levels of taxes and predict future trends. It is imperative that states keep aware of the outlays neighboring states find necessary: a higher paying school system, for example, may siphon off another state's best teachers; expenditures for public relations may bring in new industries and added revenues. The experience of other states—especially neighboring ones—may serve as good policy guides for Montana. From a prediction point of view, if a state's expenditures are low in relationship to those of other states, an increase in expenditures—and taxes—may be in the offing. If its expenditures are relatively high compared to other states, the converse may be true.

Therefore, this article, as one in a continuing series on taxation in Montana, presents some cold statistics on amounts being spent on various functions of Montana government and sets forth comparable data from other states and from the Rocky Mountain region. These figures can be helpful in evaluating how our governments—state and local—spend money; but before Montana's rankings in the tables and charts are taken too literally we would like our readers to understand exactly what these rankings mean. After taking into account the various distortion factors, legislators can act more wisely, and electors will have a better background from which to elect their legislators.

## *Nature of the Analysis*

Taxes, of course, provide the major source of financing for government services. Therefore, the level of a state's expenditures is an indicator of the taxes which must be collected. However, there is usually not a one-to-one relationship between amounts of state expenditures and taxes because fees and federal grants also provide important amounts of revenues. In Montana, federal grants finance over one-third of state governmental outlays and almost one-fourth of combined state and local government expenditures.

Analysis of the levels of a state's expenditures should include the combined outlays of the state and its local governments as well as those of state government alone, since governmental responsibilities may be handled at either the state level or the local level. For example, primary and secondary education are financed largely at the state level in Delaware; in Nebraska their financing is largely a local responsibility. Such differences tend to distort state-to-state comparisons unless local expenditures are included. This paper includes separate graphs and tables for state expenditures and for state-plus-local expenditures.

State-by-state comparisons in absolute dollar terms are obviously inappropriate. Imagine comparing California's expenditures with those for Nevada. The two measures generally used for making expenditure comparisons among states are expenditures per capita—that is, expenditures divided by the population—and expenditures as a percentage of state personal income. Each measure has a somewhat different meaning, and, since neither is satisfactory for all purposes, both should be included in any meaningful comparisons.

Per capita expenditure provides a measure of the level or quantity of service provided. Nevertheless, this measure does not take account of the varying needs for and cost of services in different states. Variation in urbanization and over-all population density are among the important state-to-state differences likely to result in different per capita expenditures. For example, Alaska's sparse population results in large per capita expenditures for highways. Per capita figures do not measure differences in state-to-state ability to finance expenditures resulting from variance in per capita income.

The amount of expenditure for a governmental activity expressed as a percentage of the personal income of all the people in a state shows the relative importance of the activity in that state's economy. While New Mexico's expenditures for education amount to almost ten percent of personal income in that state, education expenditures account for less than 1.5 percent of personal income in New Jersey, and are consequently a relatively minor item. Furthermore, expressing expenditures as a percentage of state personal income would suggest the relationship between expenditures and the ability to finance them if they were all paid for with state funds, and if federal grants did not distort the figures.

The following section describes Montana state government expenditures in total and for various functions during the fiscal year which ended June 30, 1964, the latest year for which complete data are available. Because of the disparity discussed above the section states these figures both on a per capita basis and as a percentage of personal income. It then shows the ranking of each Montana figure among all 50 states and among the ten western states of Montana plus North Dakota, South Dakota, Wyoming, Colorado, New Mexico, Utah, Arizona, Idaho, and Nevada. These comparisons between Montana and the other states are shown graphically for per capita expenditures on the largest items of expenditure and for per capita total expenditures. Graphs for these expenditures as a percentage of personal income are similar to the per capita graphs since they would be derived from the same expenditure figures. These data are all based on *state* figures; a subsequent section of this article presents the same data and comparisons for Montana state and local expenditures combined.

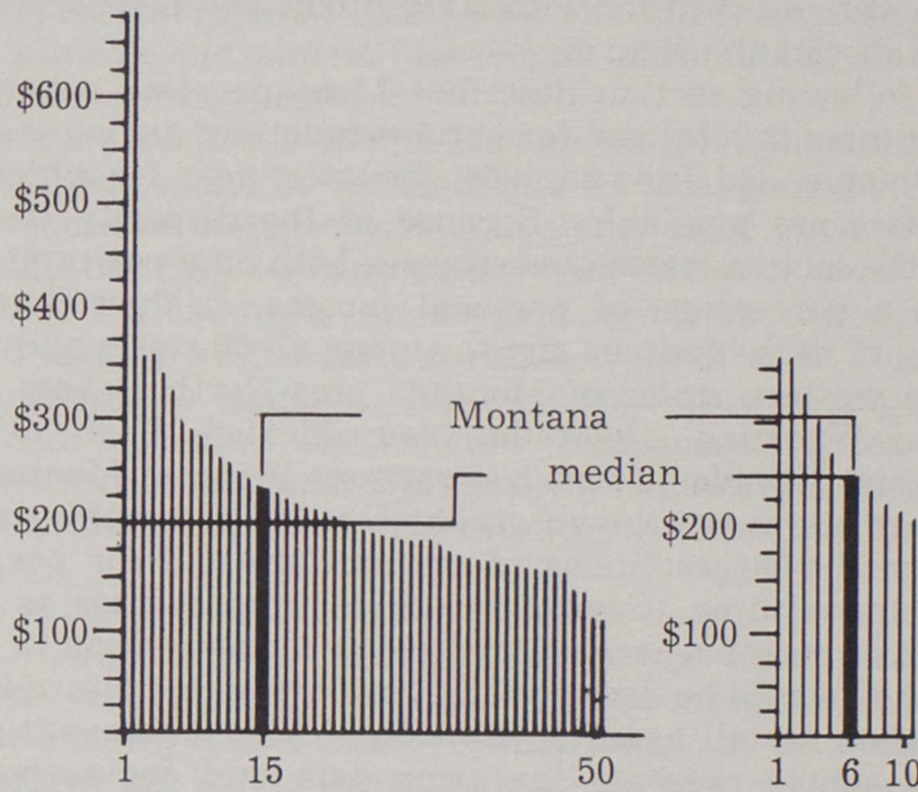
## *Expenditures by Montana State Government*

Total state expenditures to provide governmental services in Montana amounted to $246 per person and constituted 11.1 percent of personal income in the state in 1964. These Montana figures ranked fifteenth among all states, and sixth and fourth respectively among the ten neighboring states. The graphs in Figure 1 compare our total state government expenditures per capita with those in all states and in the neighboring states. The median line on the graphs represents the middle expenditure on a list of the per capita expenditures of the state ordered from the highest to the lowest.

Montana's ranking shows our total state expenditures to be somewhat higher than the national average. However, such ranking does not necessarily mean that our legislators have been extravagant, or that our taxes need to be correspondingly greater than the national average. The amount by which our total expenditures exceed the national median is less than the amount by which the level of our highway expenditures—

FIGURE 1

**MONTANA'S RANKING ACCORDING TO PER CAPITA TOTAL STATE GOVERNMENT GENERAL EXPENDITURES, 1964**



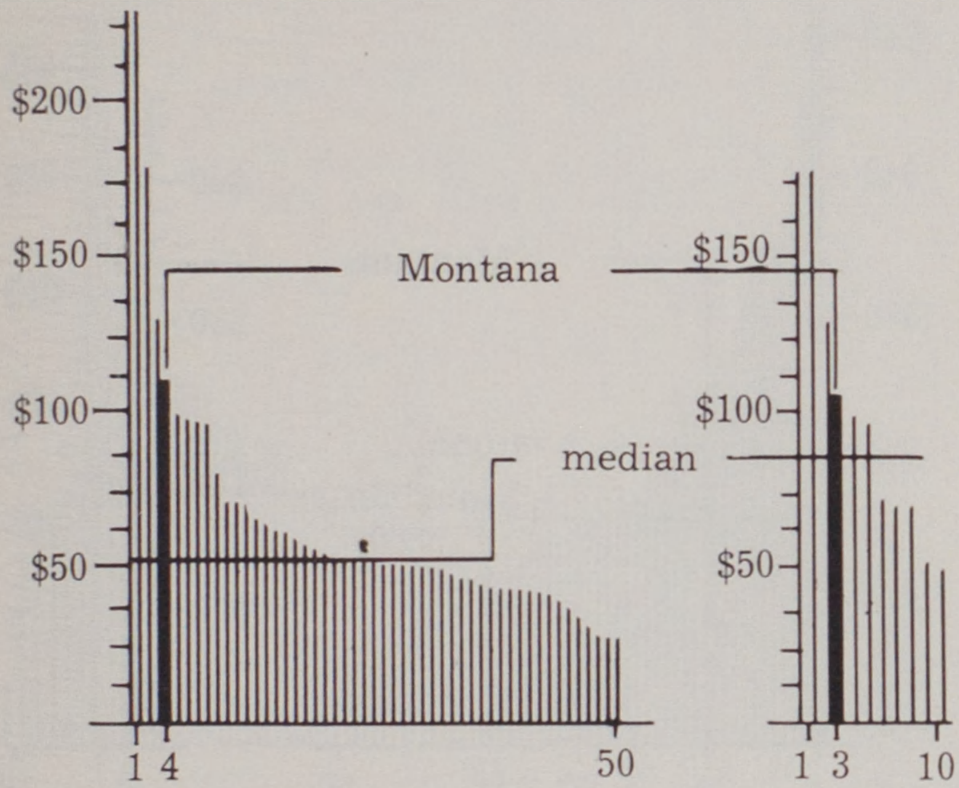

Source: United States Bureau of the Census, *Compendium of State Government Finances in 1964.*

almost two-thirds of which are financed federally in Montana —exceed the national median. Our large, sparsely populated area accounts for our large highway costs. Over one-third of the state's total expenditures are paid for with federal funds. The expenditure measure shown in Figure 1 refers to total general expenditures but excludes a few state outlays, such as the state's liquor purchases for sale through the state stores.

Examination of total expenditures obscures some important information which becomes evident through examination of outlays for particular purposes. The four largest items in Montana's state budget are highways, education, insurance (including state employee retirement, unemployment compensation, and workman's compensation) and welfare. Considerably more is spent in Montana than the median state nationally or regionally for highways and insurance, as Figures 2 and 3 show. We spend considerably less than the average for welfare as shown by Figure 4. Figure 5 demonstrates that we spend

**FIGURE 2**

**MONTANA'S RANKING ACCORDING TO PER CAPITA STATE GOVERNMENT EXPENDITURES FOR HIGHWAYS, 1964**




Source: Same as Figure 1.

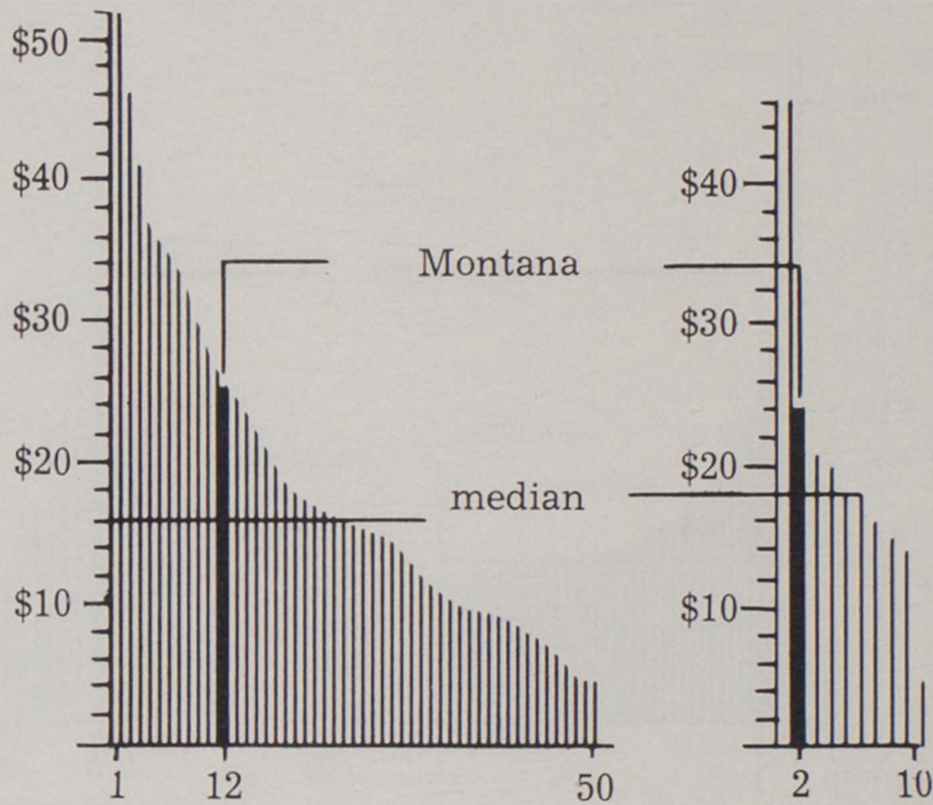
slightly more than the median state nationally for education, but less than the median in the region. The level of our highway expenditures, as previously mentioned, and to some extent our educational outlays, can be explained by the wide disbursement of our population. Our low welfare outlays can probably be attributed partly to an absence of the acute problems likely to be associated with highly urbanized areas. The level of Montana's insurance outlays is largely a matter of choice. In fact, legislative discretion is a determinant of all governmental expenditures.

It is important to remember, however, that as in the case of highway expenditures, these separate outlays do not necessitate a corresponding amount of taxes by the state. For example, over 60 percent of the welfare programs are financed with federal funds, and federal tax money pays for ten percent of the outlays for education.

Table 1 shows Montana's expenditures for highways, education, insurance, and welfare as a percentage of personal income

**FIGURE 3**

**MONTANA'S RANKING ACCORDING TO PER CAPITA STATE GOVERNMENT EXPENDITURES FOR INSURANCE, 1964**




Source: Same as Figure 1.

**TABLE 1**

**MONTANA STATE GOVERNMENT EXPENDITURES FOR HIGHWAYS, EDUCATION, INSURANCE, AND WELFARE AS A PERCENTAGE OF PERSONAL INCOME, 1964**

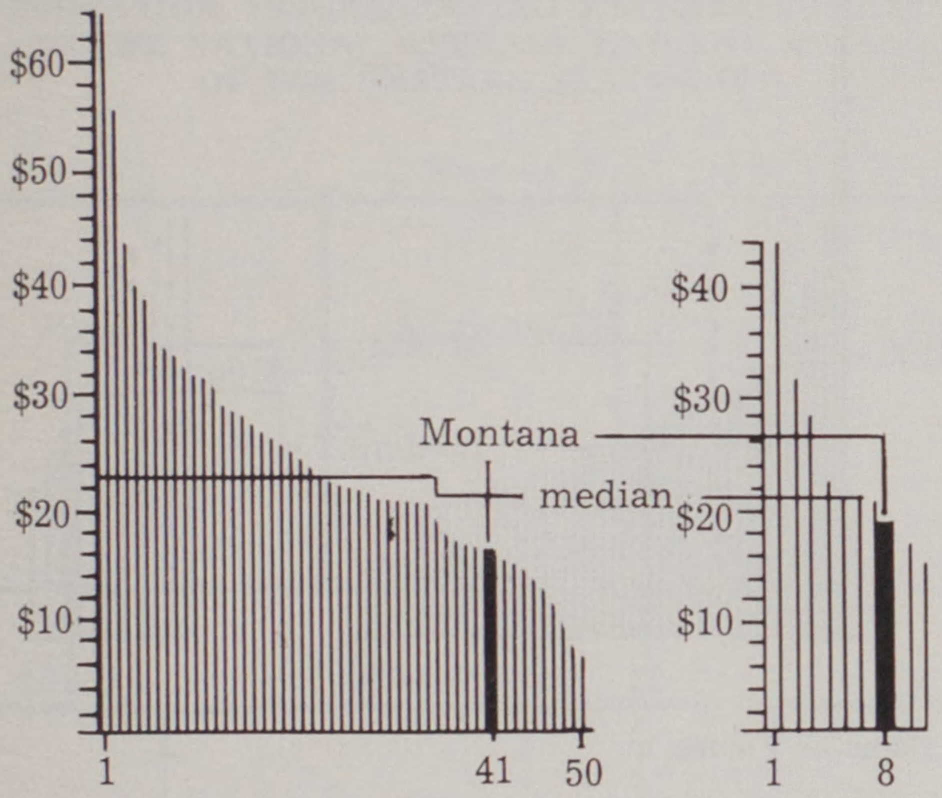
| | Highways | Education | Insurance | Welfare |
|---|---|---|---|---|
| Expenditure as a percentage of personal income | 4.8 | 3.3 | 1.1 | 0.8 |
| Ranking among all 50 states | 6th | 24th | 10th | 39th |
| Ranking among 10 western states[1] | 3rd | 7th | 2nd | 8th |

[1]Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, North Dakota, Utah and Wyoming.

Source: United States Bureau of the Census, *Compendium of State Government Finances in 1964.*

**FIGURE 4**

**MONTANA'S RANKING ACCORDING TO PER CAPITA STATE GOVERNMENT EXPENDITURES FOR WELFARE, 1964**



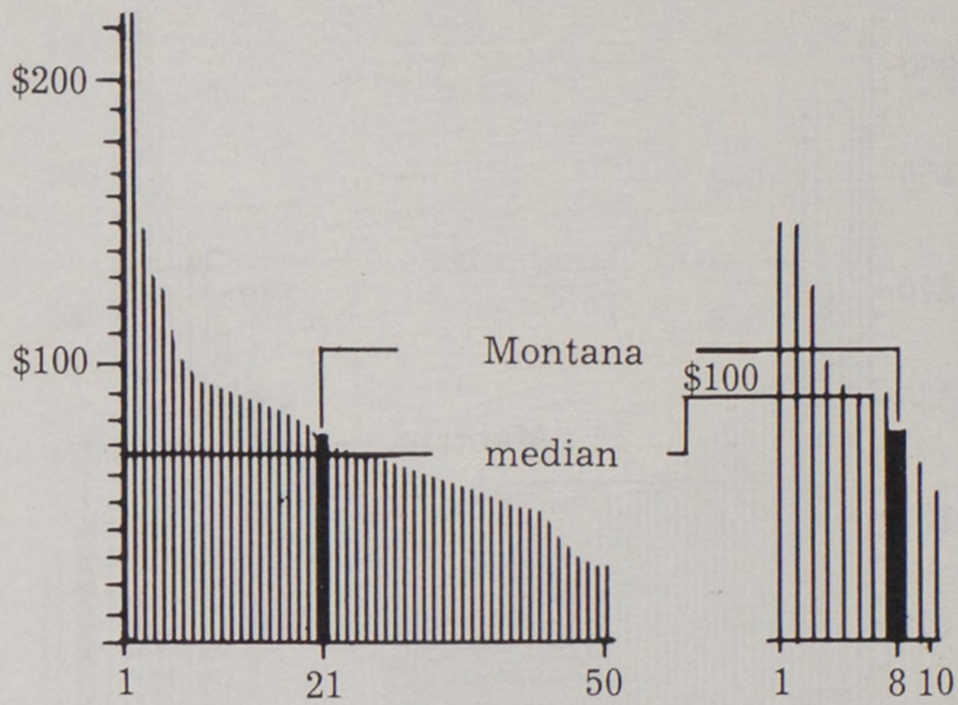

Source: Same as Figure 1.

in the state. The reader may note that the ranking of these Montana expenditures as a percentage of personal income is similar to the ranking of our per capita figures, but the table provides another vantage point from which one can compare our levels of expenditures with those of other states.

Four other significant categories of state expenditure are natural resources (which includes outlays for agricultural research and conservation, fish and game, and forestry and parks); health and hospitals; general control (which includes the legislative branch, the judiciary, and financial administration); and public safety (which includes expenditures for state police and correctional institutions). Table 2 shows the amount for these four functions and how Montana state government expenditures rank among other states. Added together these functions constituted less than a third as much as highway outlays alone; a fact which Montana readers may be interested to note. Our expenditures for natural resources and public safety are above the national and regional medians, and our expendi-

FIGURE 5

MONTANA'S RANKING ACCORDING TO PER CAPITA STATE GOVERNMENT EXPENDITURES FOR EDUCATION, 1964




Source: Same as Figure 1.

TABLE 2

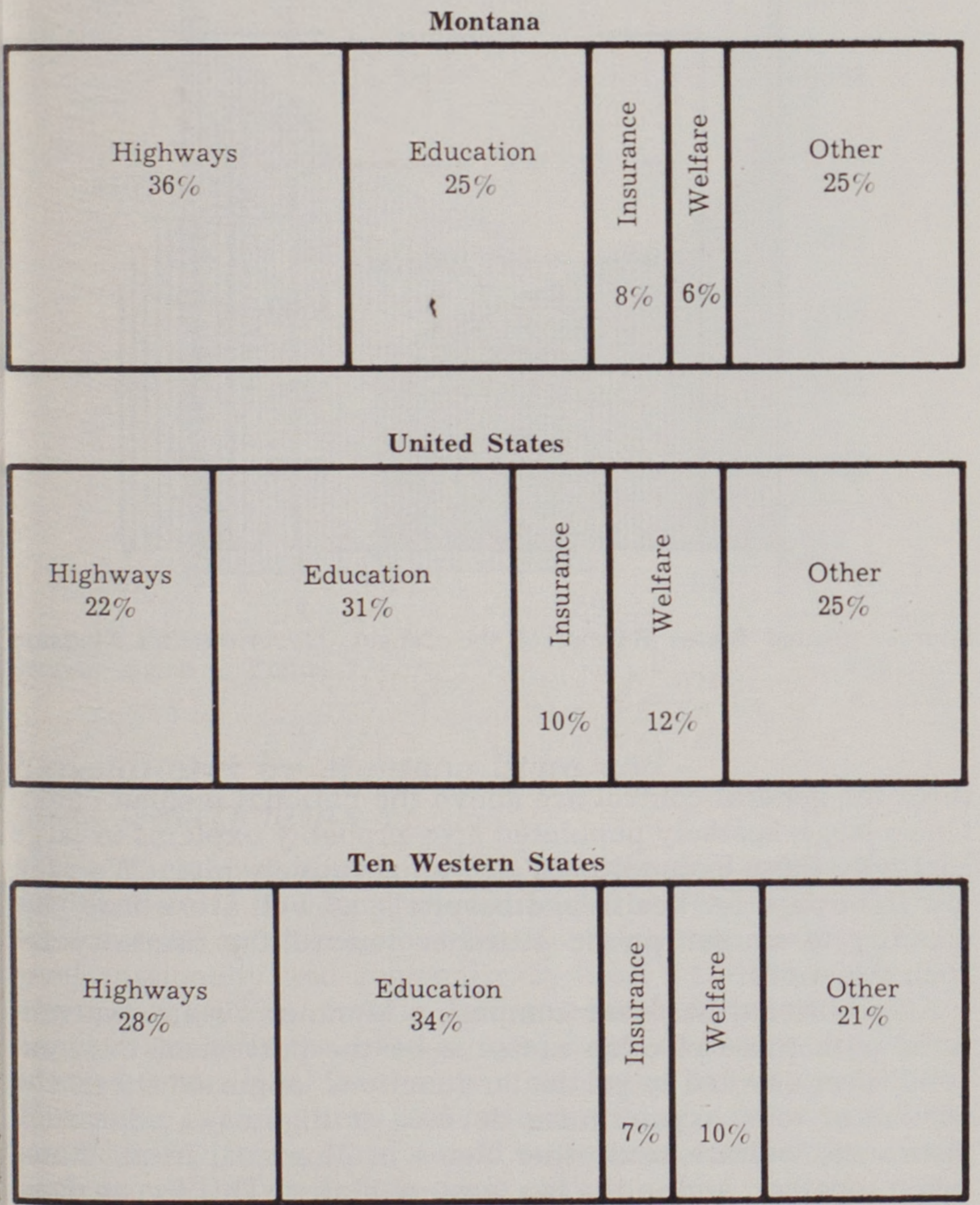
PER CAPITA AMOUNT AND RANKING OF MONTANA STATE GOVERNMENT EXPENDITURES FOR NATURAL RESOURCES, HEALTH AND HOSPITALS, GENERAL CONTROL, AND PUBLIC SAFETY, 1964

| | Natural Resources | Health and Hospitals | General Control | Public Safety |
|---|---|---|---|---|
| Expenditure per capita | $12.36 | $10.08 | $5.29 | $5.57 |
| Ranking among all 50 states | 6th | 42nd | 19th | 16th |
| Ranking among 10 western states | 4th | 6th | 6th | 5th |
| Expenditure as a percentage of personal income | 0.6 | 0.5 | 0.2 | 0.2 |
| Ranking among all states | 6th | 39th | 16th | 14th |
| Ranking among 10 western states | 3rd | 6th | 7th | 5th |

Source: Same as Table 1.

**FIGURE 6**

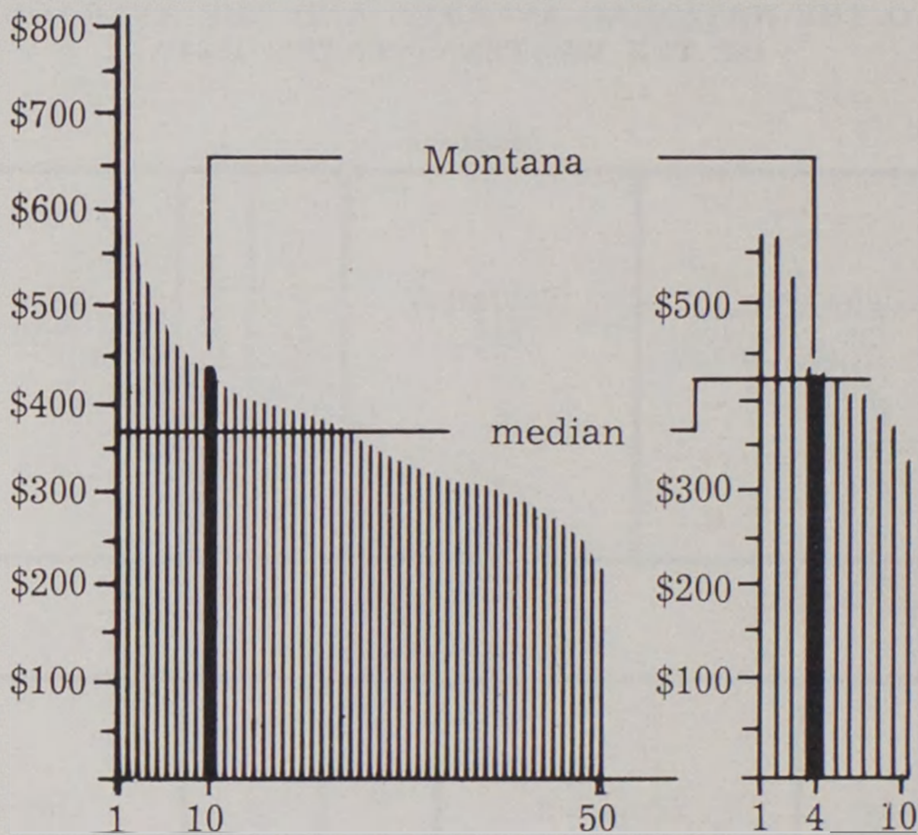
**COMPARISON OF THE PORTIONS OF MONTANA STATE GOVERNMENT EXPENDITURES DEVOTED TO HIGHWAYS, EDUCATION, INSURANCE AND WELFARE COMPARED TO THE NATIONAL AVERAGE AND THE AVERAGE OF TEN WESTERN STATES, 1964**




Source: Same as Figure 1.

**FIGURE 7**

**MONTANA'S RANKING ACCORDING TO PER CAPITA TOTAL STATE AND LOCAL GOVERNMENT GENERAL EXPENDITURES, 1964**



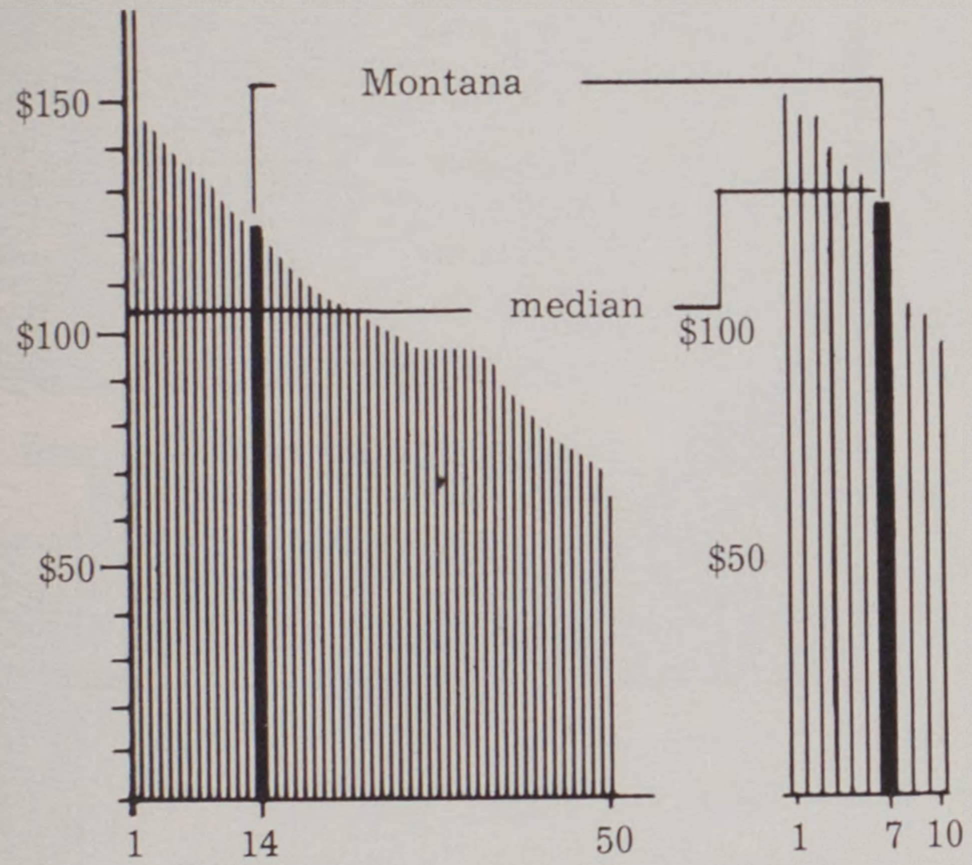

Source: United States Bureau of the Census, *Governmental Finances in 1964.*

tures for general control are above the national median. Montana's large, sparsely populated area probably explains in large part why these expenditures are comparatively high. We rank low in outlays for health and hospitals, as well as welfare, due possibly to similar public attitudes toward the necessity for such functions.

An additional basis for comparing Montana's state expenditures with those of other states is by the portion of total expenditures devoted to particular functions. Figure 6 shows the portion of total expenditures devoted to highways, education, insurance, welfare, and other items in Montana, in all states taken together, and in the ten western states. This figure demonstrates that Montana devotes a much larger portion of state expenditures to highways and smaller portions to education and welfare than does the average state.

**FIGURE 8**

**MONTANA'S RANKING ACCORDING TO PER CAPITA STATE AND LOCAL GOVERNMENT EXPENDITURES FOR EDUCATION IN LOCAL SCHOOLS, 1964**




Source: Same as Figure 7.

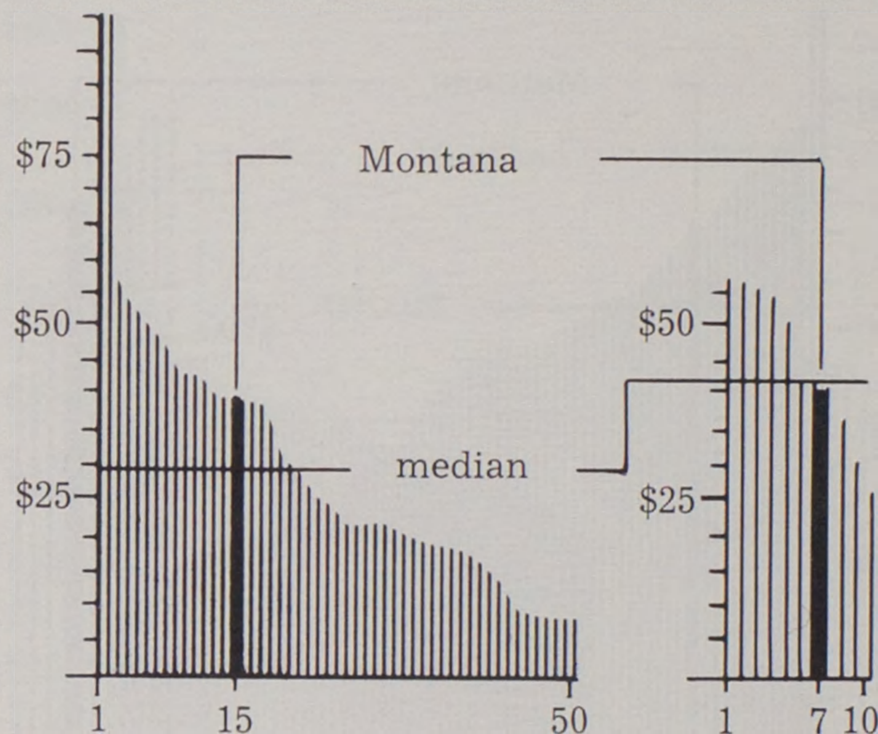
## *Expenditures by Montana State and Local Governments*

The remaining figures in this chapter depict the level of combined state and local governmental expenditures in Montana, in total and for various functions; we then compare these levels nationally and regionally to those in other states. As mentioned earlier, certain governmental functions may be handled at either the state or local level, and various patterns of state versus local involvement are found from state to state. Therefore, examinations and comparisons of governmental expenditures within a state should be done on a state plus a local basis as well as on a state basis only.

Total state plus local governmental expenditures for the 1964 fiscal year in Montana averaged $427.65 per person and equaled 12.5 percent of personal income in the state. The per

**FIGURE 9**

**MONTANA'S RANKING ACCORDING TO PER CAPITA STATE AND LOCAL GOVERNMENT EXPENDITURES FOR HIGHER EDUCATION, 1964**




Source: Same as Figure 7.

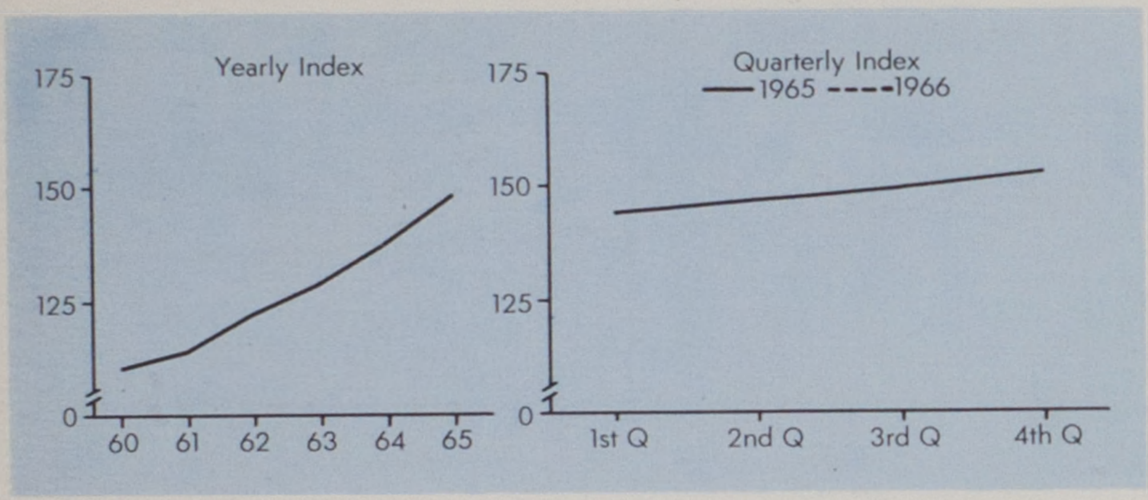
capita figure ranked tenth among all states and fourth among the ten states in the region; the percentage figure ranked ninth and fourth respectively. Figure 7 compares Montana total per capita expenditures with other states, nationally and regionally. As with expenditures by the state government alone, not all of these outlays must be financed with state or local taxes since federal grants constitute almost one-fourth of the total. The percentage of the combined revenues that Montana state and local governments received from the federal government ranks sixth nationally and third regionally; thus our state and local taxes are lower in relation to expenditures than in the average state.

As on the state level alone, highways and education together constitute about two-thirds of total Montana state plus local expenditures. However for state and local governments combined, education costs more than highways—$165.95 per capita as compared to $128.74. Figures 8, 9, and 10 respectively show Montana state and local per capita outlays for education in

*National Indicators —*

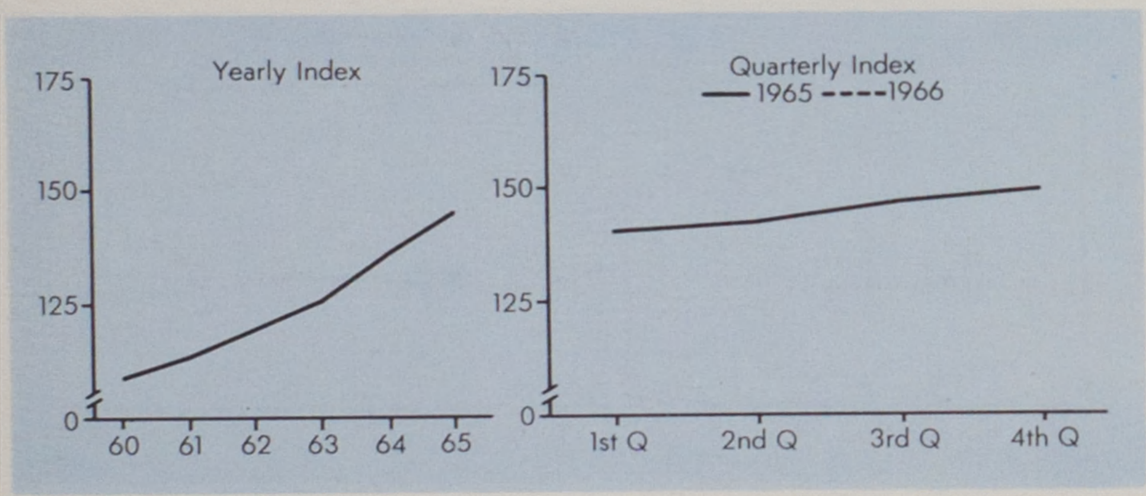
## GROSS NATIONAL PRODUCT

1957-59 = 100 — Seasonally adjusted, annual rates



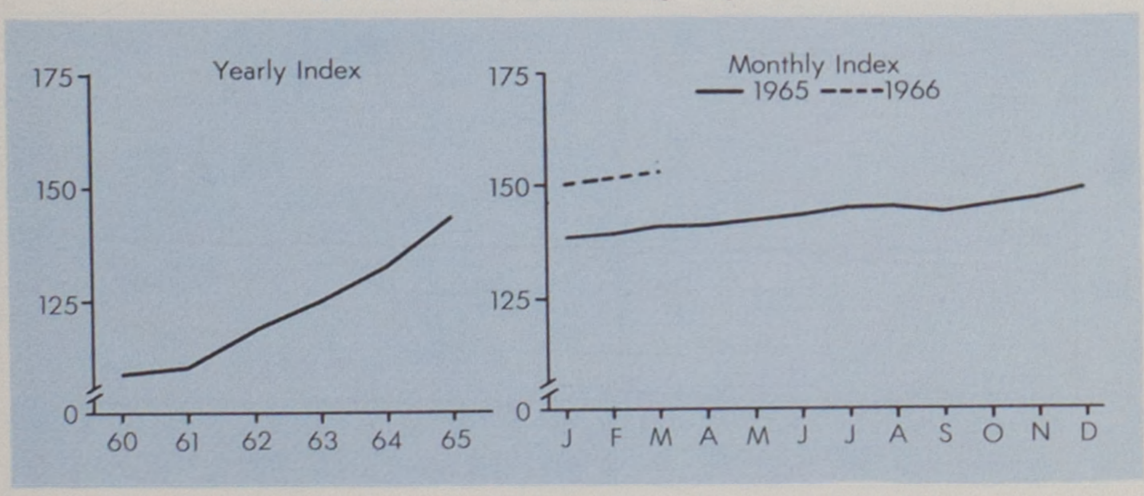

## DISPOSABLE PERSONAL INCOME

1957-59 = 100 — Seasonally adjusted, annual rates




## INDUSTRIAL PRODUCTION

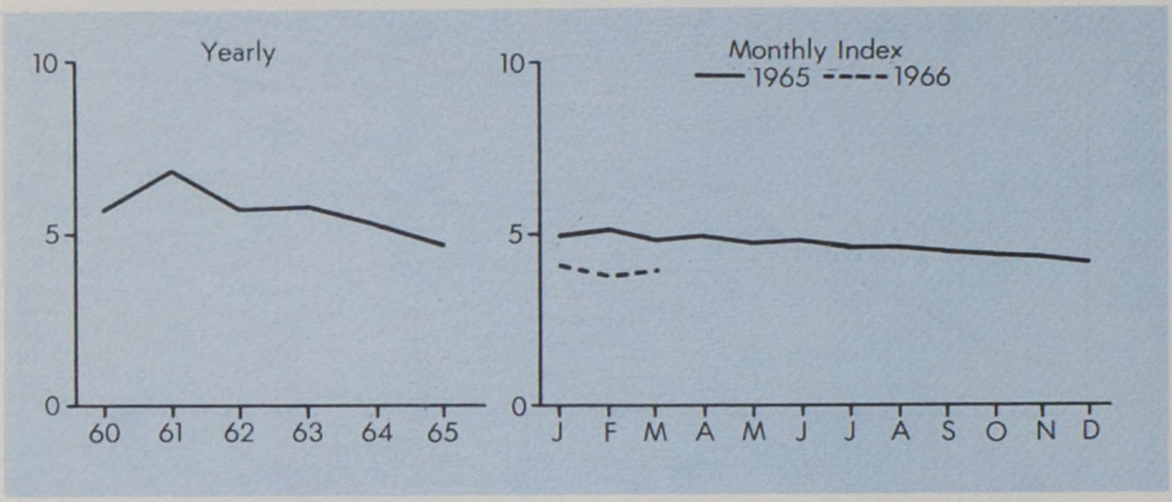
1957-59 = 100 — Seasonally adjusted



## *National Indicators —*

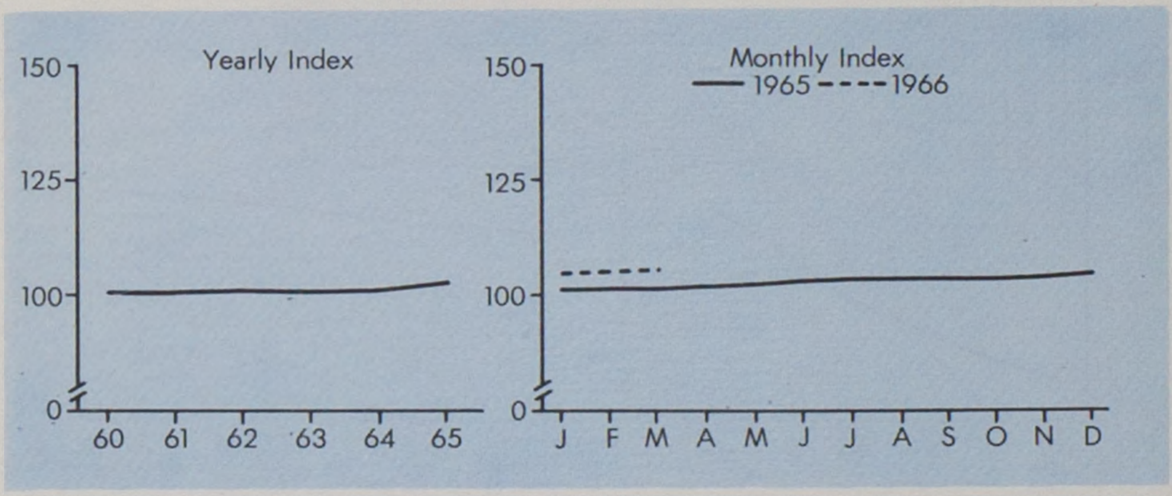
**UNEMPLOYMENT AS % OF THE LABOR FORCE**

Seasonally adjusted



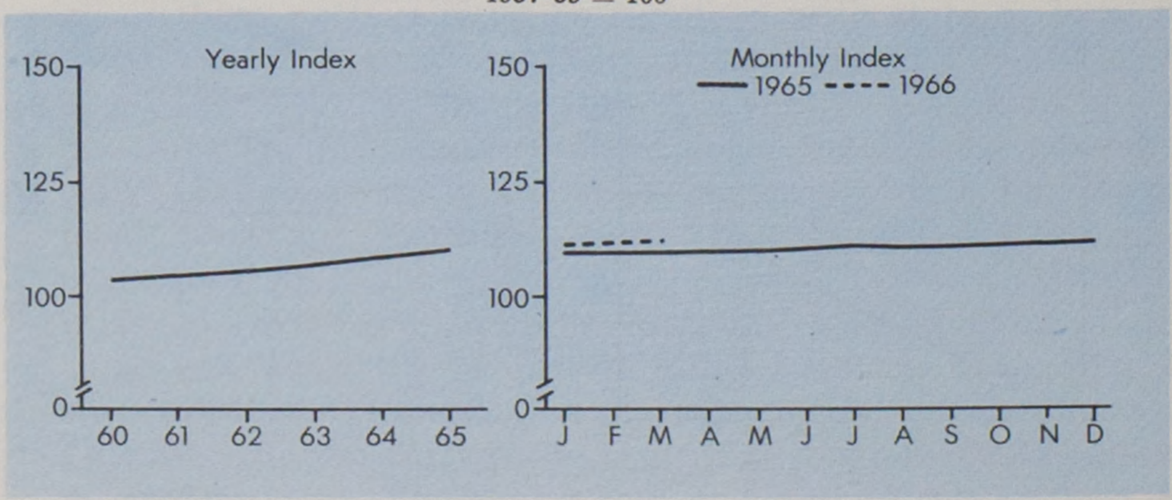

**WHOLESALE PRICE INDEX**

1957-59 = 100




**CONSUMER PRICE INDEX**

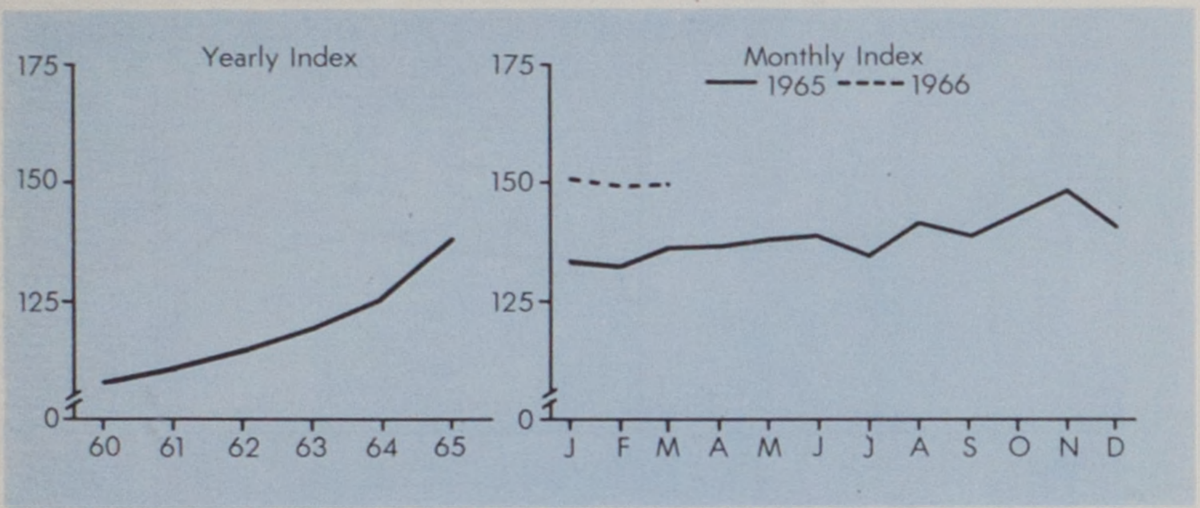
1957-59 = 100



# *Montana Indicators —*

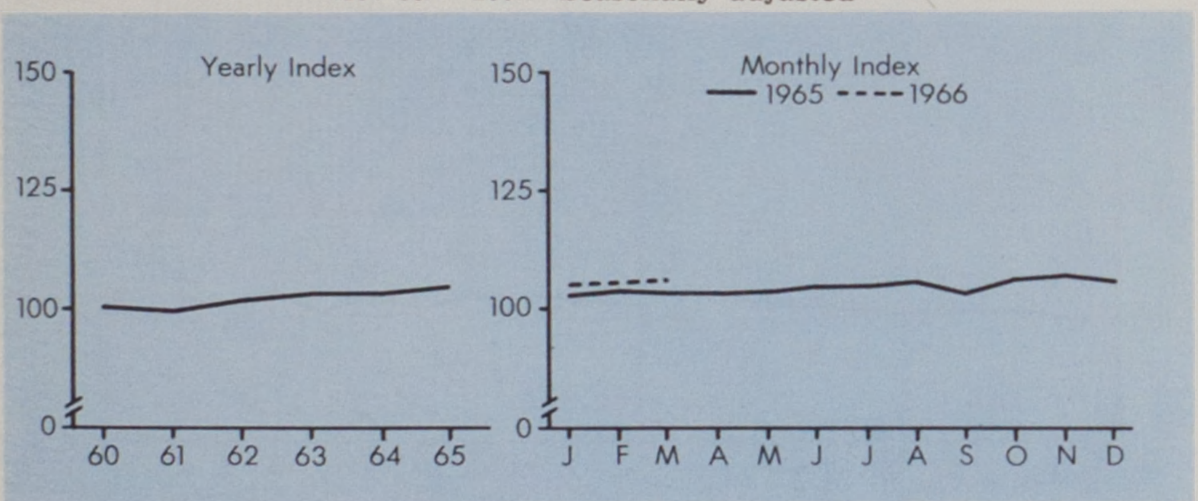
## BANK DEBITS

1957-59 = 100 — Seasonally adjusted



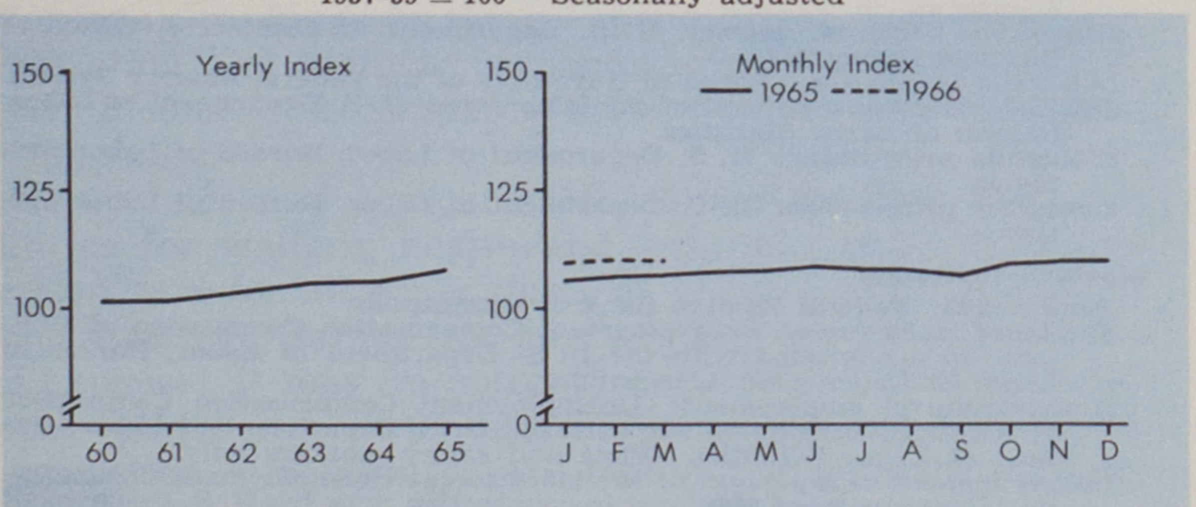

## EMPLOYED WORK FORCE

1957-59 = 100 — Seasonally adjusted




## NONAGRICULTURAL EMPLOYMENT

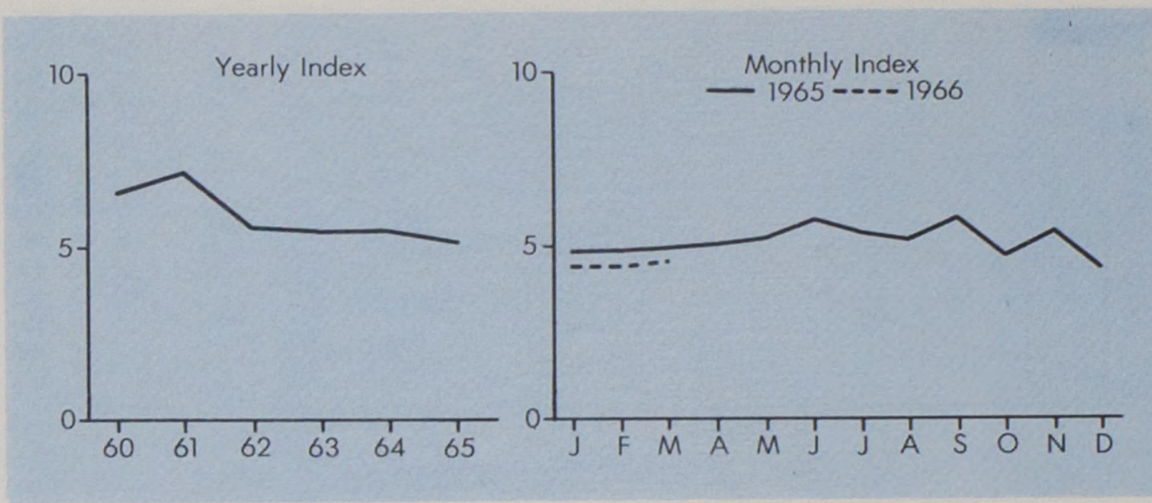
1957-59 = 100 — Seasonally adjusted



## *Montana Indicators —*

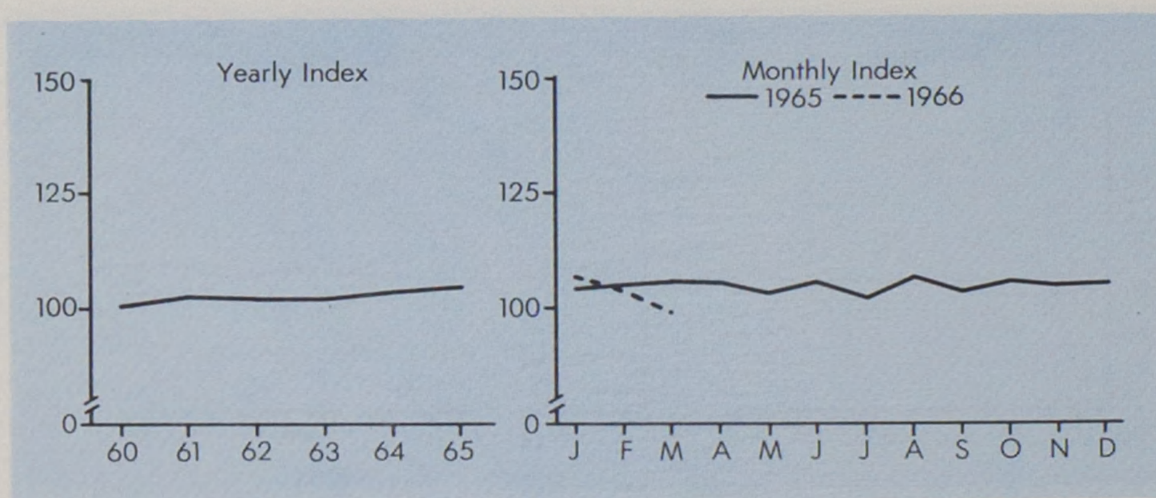
**UNEMPLOYMENT AS % OF THE LABOR FORCE**

Seasonally adjusted




**AVERAGE WEEKLY HOURS, MANUFACTURING**

1957-59 = 100 — Seasonally adjusted




**SOURCES OF DATA**

**National Indicators**

*Gross national product:* U. S. Department of Commerce, Office of Business Economics.

*Disposable personal income:* U. S. Department of Commerce, Office of Business Economics.

*Industrial production:* Board of Governors of the Federal Reserve System.

*Unemployment as a percent of the labor force:* U. S. Department of Labor, Bureau of Labor Statistics.

*Wholesale price index:* U. S. Department of Labor, Bureau of Labor Statistics.

*Consumer price index:* U. S. Department of Labor, Bureau of Labor Statistics.

**Montana Indicators**

*Bank debits:* Federal Reserve Bank of Minneapolis.

*Employed work force:* Unemployment Compensation Commission of Montana, in cooperation with the U. S. Department of Labor, Bureau of Labor Statistics. Excludes military.

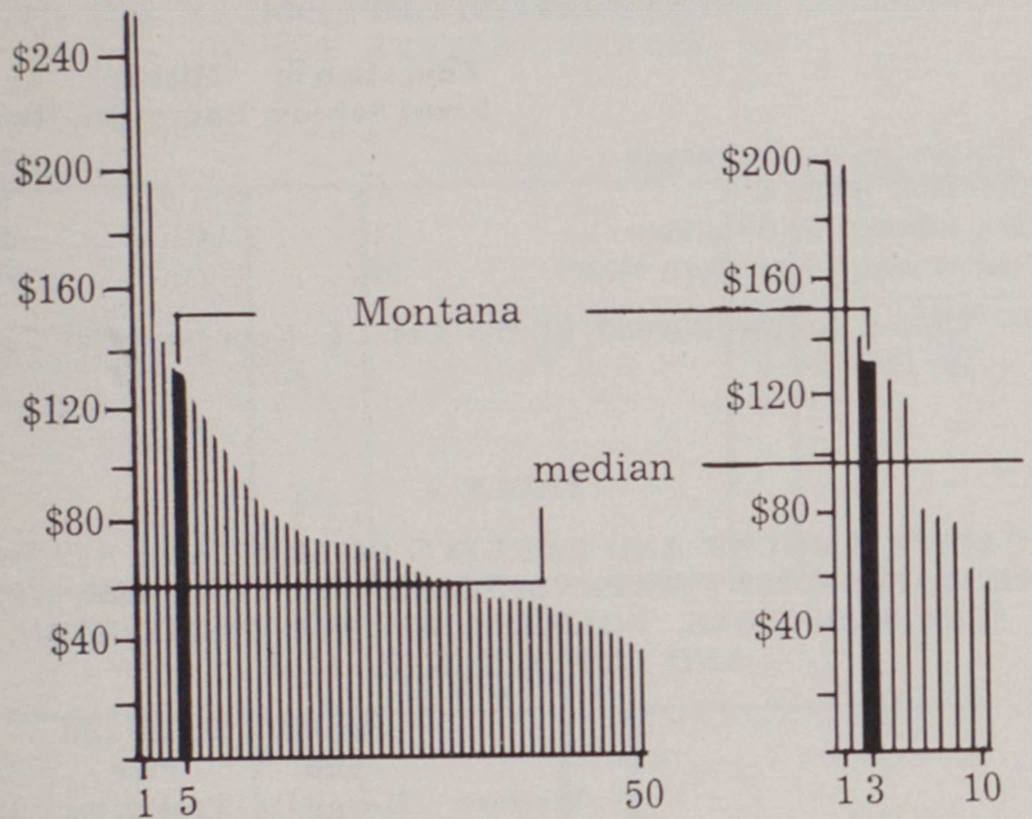
*Nonagricultural employment:* Unemployment Compensation Commission of Montana, in cooperation with the U. S. Department of Labor, Bureau of Labor Statistics. Wage and salary workers only.

*Unemployment as a percent of the labor force*: Unemployment Compensation Commission of Montana, in cooperation with the U. S. Department of Labor, Bureau of Labor Statistics.

*Average weekly hours in manufacturing industries:* Unemployment Compensation Commission of Montana in cooperation with the U. S. Department of Labor, Bureau of Labor Statistics.

**FIGURE 10**

**MONTANA'S RANKING ACCORDING TO PER CAPITA STATE AND LOCAL GOVERNMENT EXPENDITURES FOR HIGHWAYS, 1964**




Source: Same as Figure 7.

local schools, higher education, and highways compared to the other states nationally and regionally. Our per capita education expenditures are above the national median but below the median in the region. As for state expenditures alone, geographic factors as well as legislative action offer explanations for Montana's rankings in these expenditures. Table 3 shows our education and highway expenditures as a percentage of personal income and compares these percentages nationally and regionally.

Table 4 states and compares Montana state and local expenditures for welfare, health and hospitals, police and fire protection, and for all other items of general expenditure including sewerage, sanitation, parks, general control, and interest expense. It may be noted that welfare, and health and hospital outlays—as on the state level only—and police and fire protection expenditures are below the national and regional medians. The level of our outlays for protection is probably due in part to the fact that Montana has traditionally

TABLE 3

**MONTANA STATE AND LOCAL GOVERNMENT EXPENDITURES FOR EDUCATION IN LOCAL SCHOOLS, HIGHER EDUCATION, AND HIGHWAYS, AS A PERCENTAGE OF PERSONAL INCOME, 1964**

| | Education in Local Schools | Higher Education | Highways |
|---|---|---|---|
| Expenditure as a percentage of personal income | 5.6 | 1.9 | 5.8 |
| Ranking among all 50 states | 7th | 14th | 4th |
| Ranking among 10 western states | 5th | 7th | 3rd |

Source: United States Bureau of the Census, *Governmental Finances in 1963-64.*

TABLE 4

**PER CAPITA AMOUNT AND RANKING OF MONTANA STATE AND LOCAL GOVERNMENT EXPENDITURES FOR WELFARE, HEALTH AND HOSPITALS, POLICE AND FIRE PROTECTION, AND OTHER ITEMS,[2] 1964**

| | Welfare | Health and Hospitals | Police and Fire Protection | Other Items[2] |
|---|---|---|---|---|
| Expenditure per capita | $22.76 | $16.51 | $13.14 | $80.48 |
| Ranking among all 50 states | 36th | 43rd | 30th | 23rd |
| Ranking among 10 western states | 7th | 6th | 6th | 5th |
| Expenditure as a percentage of personal income | 1.0 | 0.7 | 0.6 | 3.7 |
| Ranking among all 50 states | 32nd | 39th | 28th | 19th |
| Ranking among 10 western states | 7th | 6th | 7th | 5th |

[2]Including sewerage, sanitation, parks, general control, and interest expense.

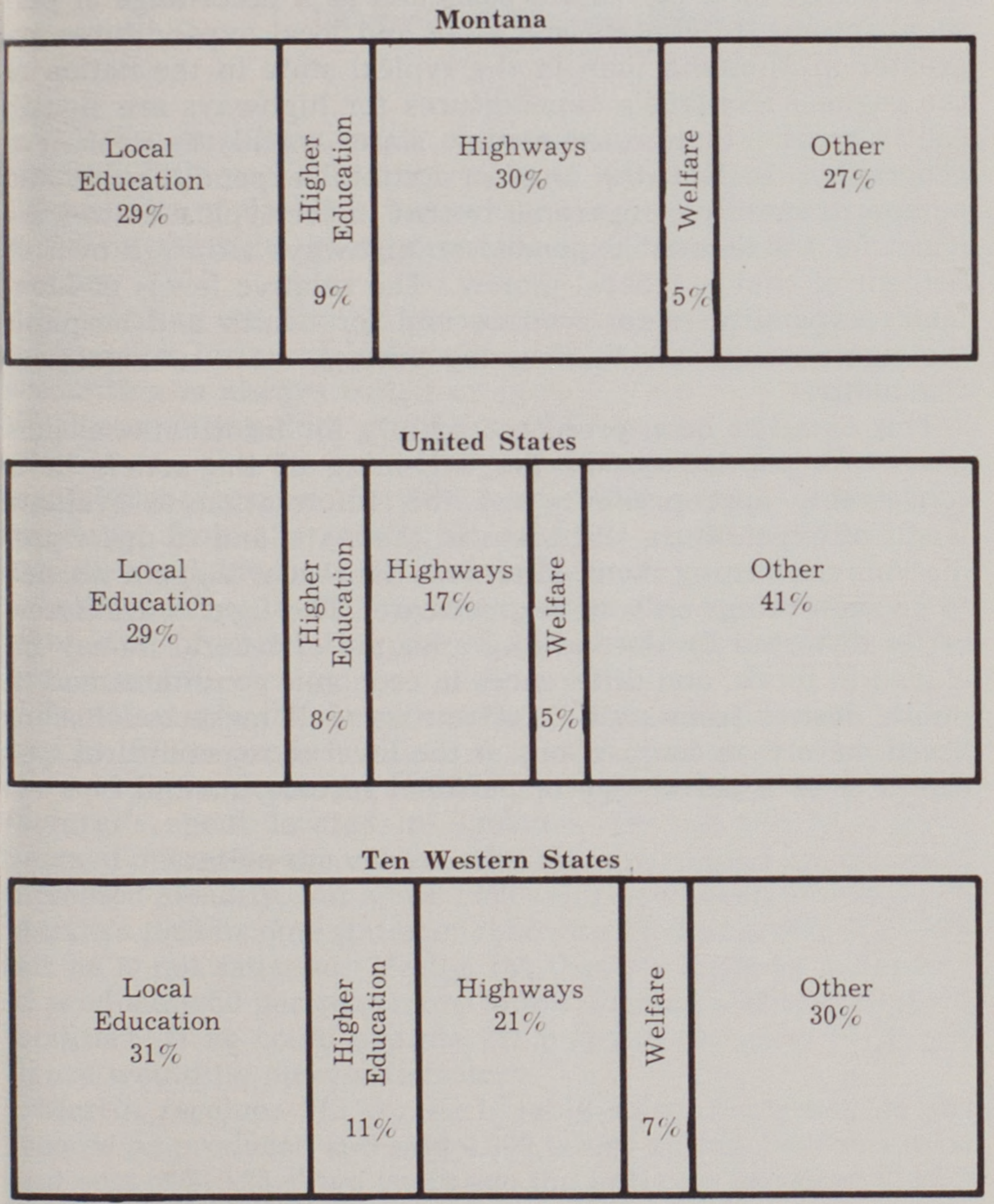
Source: Same as Table 3.

approached such problems with rural rather than urban attitudes.

Finally, Figure 11 shows the portion of total state and local government expenditures devoted to various functions in 1964 in Montana, the United States, and the ten western states. This figure dramatically demonstrates that Montana's state and

**FIGURE 11**

**PORTIONS OF MONTANA STATE AND LOCAL GOVERNMENT EXPENDITURES DEVOTED TO LOCAL EDUCATION, HIGHER EDUCATION, HIGHWAYS, AND WELFARE COMPARED TO THE NATIONAL AVERAGE AND THE AVERAGE OF TEN WESTERN STATES, 1964**




Source: Same as Figure 7.

local governments devote a much greater portion of their budgets to highways than do governmental units in the typical state.

## *Concluding Remarks*

Currently on a per capita basis and as a percentage of personal income, total state and state and local expenditures are greater in Montana than in the typical state in the nation or the region. Montana's expenditures for highways are significantly greater than in the median state—mainly as a result of geography. In fact, the level of its total expenditures would be approximately comparable to that in the typical state were it not for the amount expended on highways although over 65 percent of that is federal money. The relative levels of Montana's expenditures for welfare and for health and hospitals are significantly less than in the average state nationally or regionally.

This data has been presented mainly for informational purposes. As pointed out at the beginning of the article, it is conceivably appropriate to use this information to evaluate levels of expenditure and taxes in the state, and to make predictions concerning them. However, the reader is again warned to do such things only with great care. The figures are necessarily distorted by the varying amounts of federal money included in totals, and differences in economic conditions and in public desires from state to state may well make conclusions based merely on comparisons of the level of expenditures, per capita or as a percentage of personal income, invalid.

# The Income Statement--How Useful?

**DONALD J. EMBLEN**
**Professor of Business Administration**
**University of Montana, Missoula**

Business management is basically a process of decision making. It is probably impossible to make the best decisions 100 per cent of the time, but over the long run the majority of decisions must be good decisions or a business will be in trouble.

Accounting can furnish management with much of the basic information for making decisions, but this does not mean that accounting is always called upon to supply this information. What accounting *does* provide in the way of information and what it *can* provide are often a world apart. Unfortunately, many businessmen do not appreciate the kind of help that they could get from the intelligent analysis of the relevant data usually available in their record systems.

Let's examine a few mythical examples and see how the right kind of accounting information can help in making the best decision.

Rex Martin is the owner-manager of a small business organized in 1960 to produce a unique type of card table. The tables are sold to furniture stores throughout the country by a manufacturer's agent located in Spokane. During the first three years of operation the volume of tables distributed by the agent increased steadily, but since 1963 sales have been leveling off. Martin's 1965 income statement shows a modest profit of $7,000, but he is not satisfied. He figures that his business is capable of producing 50 per cent more tables with no addition to plant facilities. If he could operate his plant to capacity, his profit figure would be more satisfactory.

Martin receives $12 for each table sold. According to his records he produced and sold 4,000 tables during 1965 at a total unit cost of $10.25. Two years ago the unit cost had been $11.00, but then the volume of tables manufactured had been somewhat less than for 1965. A condensed income statement prepared by Martin's accountant is shown on the following page.

**THE REX MARTIN COMPANY**

**INCOME STATEMENT**

**Year Ended December 31, 1965**

| | Total | Per Unit |
|---|---|---|
| Sales (4,000 units) | $48,000 | $12.00 |
| Cost of goods sold: | | |
| Materials | $ 6,500 | $ 1.63 |
| Direct labor | 15,000 | 3.75 |
| Manufacturing overhead | 11,500 | 2.87 |
| Total manufacturing cost | $33,000 | $ 8.25 |
| Manufacturing profit | $15,000 | $ 3.75 |
| Selling and administrative expenses | 8,000 | 2.00 |
| Net income before taxes | $ 7,000 | $ 1.75 |

Within the past few days Martin had received an offer from a large mail-order house for 1,500 tables a year at a price of $9.00 a table. The mail-order house would sell the tables under its own brand name so Martin's regular market would be little disturbed by the mail-order house sales. Even though he wanted to increase his volume Martin saw no reason for selling at less than his $10.25 cost. Therefore, he reluctantly declined the order.

George Earling has been in the clothing business fifteen years. His store is departmentalized, one department specializing in men's furnishings and the other in ladies' apparel. Earling's accounting system is designed to provide sales figures, costs, and net income for each department. The following income statement for 1965 has just been prepared by the accountant.

This is the third year in a row that the ladies' apparel department has shown a loss, and because of this Earling is seriously considering dropping this department from his business. According to his income statement he would be better off financially without it, and the amount of work involved in running the business would be considerably less. The more he thinks about it the more he becomes convinced that this is the best thing to do.

Both Martin and Earling have relied heavily upon their in-

**EARLING CLOTHIERS**

**INCOME STATEMENT**

**Year Ended December 31, 1965**

| | **Total** | **Men's Furnishings** | **Ladies' Apparel** |
|---|---|---|---|
| Sales | $487,000 | $311,700 | $175,300 |
| Cost of goods sold | 340,900 | 193,300 | 147,600 |
| Gross profit | $146,100 | $118,400 | $ 27,700 |
| Operating expenses: | | | |
| Sales force expenses | $ 27,000 | $ 16,900 | $ 10,100 |
| Advertising | 18,000 | 11,250 | 6,750 |
| Building occupancy | 16,000 | 9,600 | 6,400 |
| Buying | 26,800 | 16,750 | 10,050 |
| Delivery | 12,000 | 3,000 | 9,000 |
| Administrative | 25,700 | 15,900 | 9,800 |
| Total expense | $125,500 | $ 73,400 | $ 52,100 |
| Net income (loss) | $ 20,600 | $ 45,000 | ($ 24,400) |

come statements to provide them with the factual basis for their decisions. They are well aware that financial statements are supposed to serve management by providing information about past operations and that such information is useful in making decisions regarding future operations. Martin's income statement indicates that it would be foolish to accept an order that wouldn't cover his costs, and Earling could see that a department was losing money so why not get rid of it. Martin and Earling relied on accounting reports to help them formulate their opinion as to the best course to take, but, as we shall see, by doing what appears to be obvious each may make a mistake. Why is this so?

The income statements that Martin and Earling relied on report the results of past operations. They show the revenue received, the expenses incurred, and the profit earned for the period of a year. Unfortunately, these statements were not intended to supply the kind of information needed to support the decisions that were contemplated. This does not mean that the traditional financial statements, the income statement and the balance sheet, no longer have a useful place in business usage. They perform the reporting functions they have always performed. It does mean, however, that certain business decisions require a different kind of financial information. In other words, different kinds of accounting reports are required for different purposes.

Accounting concepts are undergoing drastic changes, and some of these are manifested in the increasing emphasis given to the use of accounting information for special decision-making purposes. Large businesses have pioneered in this new emphasis because complex organizations require sophisticated analyses for efficient management. Gradually, many accounting innovations developed by large companies have been picked up by small businesses and used to great advantage in assisting management.

Conventional income statements and balance sheets emphasize external reporting and provide an account of management's stewardship of the business to interested outside parties. In contrast, accounting reports today are increasingly emphasizing internal reporting for management purposes. Basic accounting data remain the same, but the arrangement of the data is different.

Anyone who has studied the usual type of income statement is aware that expenses are usually listed according to the function performed. That is, expenses may be classified as salaries and wages, heat and light, telephone, office expense, and subclassified according to the purpose served, *i.e.*, selling, administrative, or other. This is a perfectly logical arrangement for the purpose of showing management's stewardship of the business, but its usefulness is limited when accounting information is to be used to provide maximum assistance to management, particularly when changes in volume or product mix are contemplated.

Instead of grouping expenses by function and purpose, let us group them according to the extent that they change in relation to sales or production. Some expenses obviously vary more or less in relation to the volume of output. For example, sales commissions will vary with sales volume, and materials used in manufacture will vary with the volume of production. On the other hand, some expenses appear to be independent of volume of output over a fairly wide range and for relatively long periods of time. For example, depreciation of plant and equipment is usually a function of time rather than of output and, hence, is considered fixed. Likewise, the salaries of most supervisory personnel go on regardless of output. Thus, expenses may be classified as either variable (varying with output) or fixed within a given period of time (not varying with output).

What will such an arrangement of expenses accomplish that is an improvement over the traditional way of listing expenses? It will be demonstrated later that a variable-fixed grouping of expenses will provide management with better insights into the operations of a business. Most managers recognize that there is a relationship between expenses and volume and profits, and many business decisions are made intuitively with that knowledge in mind. However, it would be better if decisions were not made intuitively but on the basis of specific information provided by the accounting system. The traditional income statement gives no indication of expense variability and, hence, fails to supply the kind of information often needed.

Most business expenses can be classified as either variable expense or fixed. However, it should be emphasized that some expenses appear to be a mixture—partly variable and partly fixed. Even so, it is usually possible to separate the two elements into their proper classes with some degree of accuracy, and great precision is not required for most decision-making purposes. Consistency from one time period to another in the procedure used to identify expenses as either fixed or variable is probably just as important as great accuracy in classification.

Several procedures are available to assist in the separation of expenses into variable and fixed categories. Basically, all procedures depend upon an examination of each expense to determine to what extent the expense responds to a change in the level of activity. Most business managers are sufficiently familiar with the details of their business to be able to make fairly accurate estimates of the extent to which particular expenses will change in response to changes in activity. Of course, it may be desirable to obtain technical assistance from an accountant for this purpose.

It is always hoped that sales revenue will be sufficient to cover all costs of doing business with an amount left over for profit. If we analyze what happens to the sales dollar we observe that each dollar of sales must first cover the out-of-pocket expenses incurred to generate that dollar of sales. These are the variable expenses. The portion of the sales dollar remaining, after covering variable expenses, is available to contribute towards fixed expenses and profits. The knowledge that variable expenses are being covered is of considerable significance to management. Failure to cover variable expenses is probably the fastest road to bankruptcy. A reporting system that emphasizes the relationship of variable expenses to sales should be of considerable help to management.

To illustrate the application of the above concepts, let us assume that Rex Martin's 1965 income statement had been prepared on a variable-fixed expense basis as shown below:

**THE REX MARTIN COMPANY**

**INCOME STATEMENT**

**Year Ended December 31, 1965**

| | Total | Per Unit |
|---|---|---|
| Sales (4,000 units) | $48,000 | $12.00 |
| Deduct variable expenses: | | |
| Materials | $ 6,500 | $ 1.63 |
| Direct labor | 15,000 | 3.75 |
| Manufacturing overhead | 4,500 | 1.12 |
| Selling and administrative expenses | 2,000 | .50 |
| Total variable expense | $28,000 | $ 7.00 |
| Contribution margin | $20,000 | $ 5.00 |
| Deduct fixed expenses: | | |
| Manufacturing overhead | $ 7,000 | |
| Selling and administration expenses | 6,000 | |
| Total fixed expenses | $13,000 | |
| Net income before taxes | $ 7,000 | |

Martin's original income statement emphasized a total unit cost of $10.25. Obviously, a business cannot sell for less than cost for a long period of time and expect to survive. Look at the above income statement again. Martin sold 4,000 card tables for $48,000, his variable (out-of-pocket) expenses were $28,000, and the amount left over to cover fixed expenses and return some profit (the contribution margin) was $20,000. With fixed expenses of $13,000, his net profit was $7,000. Martin's present business covered all fixed expenses with a little left over.

Because sales to the mail-order house would not disturb his regular market Martin should be concerned with only the *additional* expenses that would be incurred to produce 1,500 tables. The additional expense would be $7.00 a table. At a selling price of $9.00 Martin would clear $2 a table or a total additional profit of $3,000.

In decisions of this kind only *future revenues* and *future costs* should be considered. Total costs that will not change regardless of the decision are not relevant. Martin's income statement misled him because it didn't show what additional expenses would be incurred. Had he realized the relationship of his expenses to volume of sales he might have made a different decision. Thus, one can see that an income statement that throws the spotlight on the variability of expenses is more useful for decision-making purposes than the conventional report.

Let us now consider the case of George Earling who is contemplating dropping one of his two departments. Here again, an income statement constructed to emphasize variable and fixed expenses will provide more relevant information than the traditional type of statement presentation.

Remember, the income statement of Earling Clothiers indicated that the Ladies' Apparel Department lost $24,400 for the year. If this department actually failed to pay its out-of-pocket costs then certainly Earling would be wise to discontinue that operation. Let us assume that Earling engaged an accountant to analyze his expenses in order to determine which expenses varied in relation to sales. The accountant did this and prepared the income statement on the following page.

The reason that the Ladies' Apparel Department appeared to have suffered a loss of $24,400 for the year was because several fixed expenses, not directly related to the operation of that department, were apportioned to the department on some arbitrary basis such as a percentage of sales. By charging to that department only the expenses directly incurred because of its sales we notice that the department actually contributed $2,200 towards fixed expenses. Unless a significant amount of fixed expense could be saved by dropping the department it appears that the correct decision should be to continue it. To drop the Ladies' Apparel Department would result in a loss of $2,200, and total profit would decrease to $18,400. It appears, however, that some drastic action is needed in order to increase the contribution margin of the Ladies' Apparel Department.

**EARLING CLOTHIERS**
**INCOME STATEMENT**
**Year Ended December 31, 1965**

| | Total | % | Men's Furnishings | % | Ladies' Apparel | % |
|---|---|---|---|---|---|---|
| Sales | $487,000 | 100.0 | $311,700 | 100.0 | $175,300 | 100.0 |
| Less variable expenses: | | | | | | |
| Cost of goods sold | $340,000 | | $193,300 | | $147,600 | |
| Advertising | 8,000 | | 5,000 | | 3,000 | |
| Sales force expense | 25,000 | | 16,900 | | 8,100 | |
| Buying expense | 21,800 | | 14,000 | | 7,800 | |
| Delivery expense | 6,000 | | 2,000 | | 4,000 | |
| Administration | 5,700 | | 3,100 | | 2,600 | |
| Total variable expense | $407,400 | 83.7 | $234,300 | 75.2 | $173,100 | 98.7 |
| Contribution margin | $ 79,600 | 16.3 | $ 77,400 | 24.8 | $ 2,200 | 1.3 |
| Fixed expenses: | | | | | | |
| Sales force expense | $ 2,000 | | | | | |
| Advertising | 10,000 | | | | | |
| Building occupancy | 16,000 | | | | | |
| Buying expense | 5,000 | | | | | |
| Delivery expense | 6,000 | | | | | |
| Administration | 20,000 | | | | | |
| Total fixed expense | $ 59,000 | | | | | |
| Net income | $ 20,600 | | | | | |

If the Men's Furnishing Department can make a contribution margin of nearly 25 percent of sales, the Ladies' Apparel Department should be able to do substantially better than its present one percent. It appears that variable expenses for that department are way out of line.

It is important to note that in Earling's revised statement several classes of expense appeared under both variable and fixed classifications. This is because part of each of these expenses appeared, upon analysis, to change in relation to changes in sales volume and part remained fixed regardless of sales. Many expenses appear to be a mixture of both fixed and variable elements, but a careful study of expense behavior will enable separation of an expense into its two elements with a reasonable degree of accuracy.

This article has discussed two types of business problems that can be resolved more effectively by having the right kind of information. Actually, any business man who tries to rely exclusively on information supplied by the traditional income statement will be only partially informed. Unless managers utilize to the fullest extent the accounting information that can be supplied from accounting records, they are not getting value received commensurate with the cost of recording accounting data.

The arrangement of expenses in the manner indicated in the variable expense statements lends itself to numerous analyses that can be highly useful to management when confronted with special problems. To illustrate one more application of cost-volume-profit analysis, let us assume that Earling is thinking about a building program to enlarge the floor space of his store. He figures that the cost of expansion will increase his depreciation expense (a fixed expense) by $3,000 a year. Earling would like to know how much sales would have to increase in order to absorb the increased expense and still make the same profit he had in 1965.

To find the answer to this question we must refer to Earling's income statement on page 56. Note that his total contribution margin is $79,600 or 16.3 percent of sales. After variable expenses are deducted, each dollar of sales contributes 16.3 cents towards fixed expenses and profit. The question is, then, how many dollars of sales, each one contributing 16.3 cents, must be generated to provide:

| | | |
|---|---|---|
| 1) | $59,000 | of fixed expenses as shown on the 1965 income statement |
| 2) | 3,000 | additional fixed expense in the form of depreciation |
| 3) | 20,600 | profit |
| | $82,600 | Total |

The answer is $506,749 (82,600 ÷ .163). This represents an increase in sales over 1965 of $19,748 in order to earn the same net income earned in 1965. Earling may consider a 4.0 percent increase in sales unlikely and decide to postpone his building program. On the other hand, he may decide that enlarged quarters will automatically generate more than enough sales. One way or the other, Earling is in a better position to make the decision because he has relevant information obtained from his accounting system.

Managers of small businesses have a tendency to overlook the usefulness of their accounting reports because of their intimate knowledge of all phases of their operations. They don't feel the need to rely on accounting information. Perhaps some of them have sensed the inadequacy of conventional operating statements prepared by their accountants but have not known how the data could be made more helpful. All too frequently accountants have been content to prepare statements as they have always prepared them, making changes in arrangement only upon the specific requests of their clients. As a result, too many business decisions are made on the basis of intuition rather than on the basis of information.

Information about past or present costs, prices and profits is useful, but information which is concerned with *future* costs, prices, and profits is far more significant. Today's decisions must relate to events which lie ahead.

# A Basis for Productive Advertising And Sales Promotion

Note: This article is adapted from a talk presented during the Second Middle Management Seminar sponsored by the School of Business Administration

**LAWRENCE J. HUNT**
**Assistant Professor of Business Administration**
**University of Montana, Missoula**

## *The Problem*

One of the more perplexing problems facing the manager of a small business today is how to make his expenditures for promotion—particularly his advertising dollar—more productive. Unfortunately, so many day-to-day details occupy a small business manager that he finds it difficult to give special attention to any one of them. Advertising seems especially to be given short shrift, probably because the return on the advertising expenditure is often hard to determine.

The manner in which the small business manager often deals with advertising illustrates how little thought and planning goes into this function of his business. More often than not, he waits until the very last minute before preparing his ads, and then either does the job in a hurry or turns the task over to his office or sales personnel as though it were of secondary importance. Products are chosen to be advertised more because they happen to be in over-supply rather than because there may be customer demand for them. In many instances the products selected are what merchandising men refer to as "dogs" that no amount of advertising could make palatable to the consumer. The advertising message is seldom thought through; over and over again the same old cliches are used with no apparent attempt to personalize the headline or copy, and little thought is given to whether or not the type of media employed will reach the majority of the firm's customers. The location of an ad in the newspaper or the time a spot will be heard on radio or seen and heard on television is frequently left up to the discretion of the advertising media representative. Again this is evidence that the business manager is neglecting to think in terms of his customers. Often there is no attempt to develop a theme that may be carried from one ad to the next—an indication that the manager has no long-range objectives in mind for the firm's advertising investment.

Businessmen who operate in this manner seem to feel that while advertising may be necessary, it is a bothersome activity that does not require planning—almost anyone can manage the advertising job. These same managers may spend days contemplating whether to invest in a piece of office equipment, which may be unproductive as far as producing sales; yet they invest their advertising dollar, which can be very productive, on a moment's notice, without planning how it should contribute to the business. It is difficult to understand why businessmen who are usually quite rational invest their advertising dollars in this manner. Do they feel, because they cannot easily determine the return, that the advertising expenditure is money down the drain? Do they hesitate to waste time on it as well as money? Or do they hope that just any kind of advertising will get the job done?

Some may deliberately ignore advertising because they mistrust their own ability to handle it. Their actions indicate that they do not realize how advertising fits into the over-all operation of the business. When a businessman views advertising in isolation, apart from the other activities of the firm, he makes a critical mistake. Advertising, as well as the other elements of promotion, should be treated as part of a larger framework: it must be related, coordinated, and integrated with all other activities of the business enterprise. This inability to visualize advertising as an integral part of the over-all business system seems fundamental to the problem of unproductive advertising.

## *The Firm as a Marketing System*

To understand the role advertising plays within the business system it is important first to understand the system itself. In our economy of abundance, any *efficient* business dealing in goods and services must operate with the consumer foremost in mind. Consumer orientation by the management of a firm means directing all of the activities of the business enterprise toward one principal objective—satisfying the consumer at a profit. In essence, then, the firm is a system for carrying out the marketing process. This approach makes sense when the management defines marketing as the performance of business activities that direct the flow of goods and services from producer to consumer in order to satisfy customers and accomplish the firm's objectives.[1]

This definition, then, makes it clear that all the activities carried on by the business should operate with the same objective in mind—to see that goods and services flow from producer to consumer. Furthermore, it means that the activities of the firm cannot be considered as operating separately; instead each is a part of a total system of action. Thus, if its potential is to be realized, advertising, a part of the system, must be considered in relation to the other activities of the firm.

Next, it is only logical to ask what various elements of the firm must be considered in the conduct of the marketing process. One marketing writer states that there are four basic variables that are under the control of the manager of marketing. He labels these variables as product, price, place, and promotion.[2] Product, of course, refers to the goods and services produced or stocked by the firm. Price refers to the pricing of the products or services. Place has to do with the physical plant and its location. Promotion takes in the major communication activities of the firm—of which advertising plays a significant part. If the firm's principal objective is "to satisfy the customer," then these variables must be selected and put into action with the consumer uppermost in mind. The marketing manager must make sure he knows who his customers are, if he is to be successful in satisfying their wants and desires. Specific knowledge about his customers' motives, living habits, patterns of buying behavior, their values, and other attitudes gives a manager insight which will help in preparing advertisements and provide guidelines for delivering these messages.

The coordination of advertising with the other elements of the business system is equally important to advertising success. For example, advertising is particularly dependent upon the reinforcement it gets at the point of sale. Advertisements may draw traffic to the firm, but these people are still just potential customers until they are moved into buying action at the point of sale. Thus, it is most important to have the stage properly set within the store with product, with display, with customer information, and with helpful and well-trained personnel. Careful planning which coordinates the firm's advertising with

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[1]E. Jerome McCarthy, *Basic Marketing: A Managerial Approach*, Richard D. Irwin, Inc. (Homewood, Illinois: 1964), p. 16.

[2]McCarthy, *ibid.*, p. 38.

all of the other elements of marketing and then integrate them into a system of action for carrying out the marketing process should prove the productivity of advertising.

## *Advertising as a Part of Promotion*

Advertising is only one of the major communication methods the firm may employ. Total promotion includes advertising, personal selling, publicity, packaging, and point of sale promotional devices. The actual elements of a promotional mix can vary, depending upon the task assigned to promotion and the environment in which promotion must operate. A successful firm should utilize more than one type of promotion, and may use all of them. Advertising is frequently used to communicate with the consumer who is at some distance from the firm, while personal selling is the firm's face-to-face method of communication. In recent years packaging has become an important communication device, especially in self-service stores where the package has to serve as the point-of-purchase salesman for the product. Point-of-sale promotional devices stimulate buying action within the store, and publicity stems from the news that is present in the conduct of the firm's activities.

Like all of the other elements of marketing the communication activities of the firm must be considered in relation to each other. Since all promotional tasks have a common objective—to sell goods and services—their coordination is an essential requirement. The first step in coördination is to define the tasks of each type of communication activity. This helps eliminate duplication and provides a check on whether all jobs necessary for achieving the promotional objectives are taken care of.

The second step in the coordination of the promotional mix is to integrate it with the other elements of marketing. Here the job is to adapt the selling messages to the product, the type of distribution, the pricing practices employed, and to support the firm's marketing and over-all objectives. For communication to operate efficiently, there must be compatibility between the promotion mix and the balance of the marketing elements. For example, a promotional plan calling for strong reliance on personal selling would not be compatible if self-service stores were the type of retail outlets through which the product was to flow. On the other hand, an advertising message that stresses the savings inherent in self-service operations would place less emphasis on personal selling.

A third step in coordination occurs when the marketing plan is executed. The coordination task here is supervisory; the manager of the various communication agents observes and controls the promotional operation to make certain that all of the communication agents are working together as planned. For example, he checks the salesmen to see that they are aware of and are using and demonstrating the same messages the advertising stresses; he watches the displays of product for neatness and completeness of inventory, and while a particular promotion is underway the manager should be checking on the results. If sales have surpassed his expectations he may find it necessary to add to his inventory; or if the promotion is lagging he may want to buttress the advertising with other media.

Actually, the coordination that takes place in these various steps means molding the total promotion into the marketing process—into the over-all operation of the business system. Here again, it is easy to see why advertising should not be viewed in isolation but must be related to the other activities that are necessary in carrying out the marketing task.

## *The Firm's Communication Network*

If the business firm is to operate effectively it must go beyond merely coordinating the normal promotional activities into the marketing system, but must also take into account everything about the firm that comes into contact with the consumer. Businessmen must realize that every aspect of the firm which comes into contact with the public communicates an impression. The architecture of the building, the window displays, the products carried, the interior layout, the appearance of the personnel, the performance of the service and credit departments, even the type of bags the merchandise is sacked in all communicate something to the consumer. To be effective, this communication network, of which advertising is an important part, must deliver a coordinated message—the kind of message that will produce the impression desired by the firm.

An effective communication network keeps each communication agent in harmony with the others. An example of good communication harmony can be illustrated by a famous glassware shop in New York City which likes to be regarded as an exclusive, high quality shop serving the elite. It has achieved its objective because royalty, heads of state, and the leaders of society are among its customers. How did it achieve this impressive image? Its communication network tells the story. First of all, the Park Avenue address is exclusive. The architecture of the building, a marble-faced front, is very plain and elegant in its simplicity. Its window displays are designed to show one item or grouping to its best advantage. The salespeople, chosen from New York society, are dressed and groomed to perfection. The interior of the store is perfectly decorated; the interior displays are well styled, showing a limited amount of carefully selected merchandise. Special customers are taken into a special room and seated before a table topped with black velvet where the glassware is set down by attendants wearing white gloves. From recessed places in the walls and ceilings, beams of light play on the polished product bringing out its quality. The store's advertising, which appears only in very exclusive magazines, is merely the name of the shop above the statement, "the finest in glassware." Every aspect of the firm's communication network speaks the same message—quality, exclusiveness.

This, of course, is an extreme example of communication coordination, but it does, however, emphasize the importance of having all of a firm's communication agents communicating the same message. One can imagine what would happen to this exclusive shop's image if it employed sales girls who spoke with a Brooklyn accent, or if it advertised in tabloid newspapers or put a neon sign outside its business to attract trade. Such mistakes would not be consistent with the desired image—they would break up the finely structured communication system. But many businessmen make errors nearly this glaring when they fail to plan and relate their advertising to the other activities of the firm. They do not choose the media which will reach the greatest potential of customers. They may stress a product which has no consumer appeal, or advertise without having adequate stock on hand. They fail to inform their salespeople what or when they are advertising. Often, even when they do make the sale with efficient communication, they neglect the service angle after the sale. A breakdown in the communication network of this kind shakes the customer's confidence in the firm, and the good will developed by the previous communication effort is shattered. All of these things break up communication harmony. They damage a firm's communication network and result in inefficiency in the marketing system.

## *Coordination in Promotion*

This coordinated communication concept may be successfully employed in different ways. Short, one-time, or annual promotional events can be made more productive with the coordinated approach. "Crazy daze," an off-beat promotion which has been successfully used by retailers employs communication agents in harmony with the promotional theme. Absurd ads announcing the events are inserted upside down in the newspaper or have a cartoon-like appearance. The sales people dress in outlandish costumes. Crazy-quilt banners are hung in front of the store. Windows display comic strip characters. The merchandise is priced in odd ways. Customer give-aways, such as pretzel shaped balloons or "crazy daze" buttons or banners may be handed out at the door, and customer contests, such as guessing the number of beans in a barrel or the ants in an ant hill, provide additional impact and help to draw the customer into the spirit of the promotion.

A prime reason for complete communication coordination in a special promotion is that the manager has a limited amount of time in which to produce results. A sales promotion of this kind may last no more than two or three days. It is, therefore, important that all of the communication agents are utilized in getting the customer immediately and completely involved. This customer involvement is not only important for the immediate sales event but for future promotions as well. Customers remember a happy buying experience and associate it with the event and the firm. This means that a good promotional job today can be the basis for an even better one in the future.

An off-beat promotional theme as described, or a more conservative one, a seasonal promotion such as a "spring cleanup" campaign may similarly be employed by shopping centers with all of the stores combining their communication efforts in a coordinated drive to draw customers to them. The promotional job here has a dual purpose: to draw the customer's attention to offerings in the individual stores, and to inform the customer of the benefits the shopping center as a whole has to offer. To achieve the required coordinated communication effort it is usually necessary to have one person acting as the shopping center promotional director. His duties are to plan, coordinate, and follow up on the individual units and to execute the promotion for the entire shopping center. Often, in addition to its own promotional expenditure, each store is asked to contribute (according to its sales volume) to a central fund which the promotional director controls. He may use this to advertise the shopping center or to provide additional customer services: baby sitters for shopping mothers, playground equipment for the children; some large centers have gone to the extent of bringing in carnival shows complete with ferris wheels, merry-go-rounds, and other amusement devices and have tied these attractions in with a "sales fair" promotional theme.

The promotional themes that can be employed by shopping centers are nearly endless in number, but any one of them can be a success if it has consumer appeal, is well planned, is fully supported by the member units, and is well executed. To gain optimüm results, a promotion, whether it be for a single store or an entire shopping center, must be well and completely done. Advertising can draw customers but the store or stores must be prepared to deliver the goods, that is, satisfy these customers with what they have been led to expect—a pleasant and satisfying shopping experience.

## *Media Selection, Budgets, and Evaluation of Promotions*

Media selection usually poses a problem for the average business manager. How can he reach his customers with his marketing communications? The answer lies in understanding the firm's consumer target market. What do these potential customers read, listen to, or view? The clue here usually lies in the program or editorial content of the media. Daytime television featuring soap operas is reported to be exposed to 140 million women a week.[1] Teenagers avidly listen to rock and roll radio stations. Farmers and ranchers click on the early morning market reports. The average male viewer listens to and reads about sporting events. Good media selection begins with identifying the consumer target market for the firm's products, understanding their living habits, and from this, determining which media are most influential in their daily lives and, especially for television and radio, at what time periods—then utilizing the best media as carriers of the firm's advertising messages. Where the firm carries products which are designed for different segments of the market this may

[1]"Seven Deadly Daytime Sins," *Time*, April 8, 1966, p. 61.

very well mean that different media will have to be employed to reach the various market segments.

Another perplexing problem facing the business manager is determing how much money he should spend on advertising and how he should divide it among the various media. Marketing management science in the area of administration of sales promotion has not as yet dealt adequately with these problems. As a result, advertising budgets are established on more of a rule of thumb basis than by the use of any scientific method. Two common means of arriving at an advertising budget are to set aside a fixed percentage of last year's sales, or to use a "what we can afford" approach. Some firms merely ape their competitors in attempting to keep pace with their advertising expenditures.

The fallacy in these approaches to budget formulation is that the goals of the firm are ignored, and the thinking is based largely on historical data which may not be applicable to the future needs of the firm. Since the future is the challenge, the thinking should be forward in nature, not backward. What are the firm's objectives for the ensuing year? What will be its advertising needs? And what amount of money is needed to meet these needs and objectives? This is the type of forward thinking that is required. To do this takes planning in which a number of questions must be asked and answered before the over-all advertising budget can be established. How many special promotions does a particular firm need for the coming year? What amount of regular weekly advertising is required to maintain its image? How much should be allowed for contingencies, such as introducing new products or meeting unexpected promotional aggressiveness by competitors?

The basis for setting a good budget lies in determining the amount of expenditure needed to accomplish the objectives of the firm. The costs of the various promotional needs can be estimated by accounting records, but the total amount required should be in large measure determined independently of past performance, because the promotional requirements for the future may indeed be different than those in the past. It may be necessary to adjust the amount arrived at to be in line with the resources available, but a forward thinking manager should have a plan directed toward the achievement of certain goals. Even though he may have to cut back on his expenditures, he has established guidelines which will be most useful in planning the investment of a lesser dollar amount.

Dividing the promotional budget among the various media to be employed is also a challenging task, but from past performance the manager should have a good idea which medium is most productive for his regular advertising. Relating this knowledge to next year's goals, considering the products or product lines that will be promoted, and selecting the emphasis that is to be placed upon each consumer segment of the market, should provide a basis for ranking all the media according to their importance to the firm. With this ranking, established percentages of the regular advertising budget can fairly realistically be allocated by media. These media accounts can then be broken down by time period—by season—months—weeks, etc., with seasonal fluctuations for the firm's advertising needs taken into account.

In dealing with the special promotion and contingency portions of the budget, the manager will usually find it more practical to establish total media accounts for the year ahead, rather than attempt to assign dollar figures for each medium. Under this system each promotion will be allocated a certain amount, based upon previous promotion costs and the change in emphasis demanded by the sales objectives for the coming year. Then during the actual planning of the promotion the expenditures per medium will be allocated. This provides the manager with greater flexibility and makes it possible to adjust to any special conditions that may exist at the time of the promotion. This type of planning is best for allocating the contingency portion of the budget, too. Unforeseen manufacturer or wholesaler promotions that the firm should wish to tie in with, new product introductions, news that can be utilized for promotions, sudden competitive changes, and other out-of-the-ordinary developments cannot be planned for in advance and the media requirements will have to be adjusted according to the situation.

Because budgets must be based upon costs it is important that the business manager keep a record of regular advertising, special promotion, and contingency costs. These costs are not only valuable aids to budget formulating but are also needed for evaluation. Just as in any other investment, the manager should determine his expected return on promotional expenditures. Sales in units for each product advertised should be recorded. This information makes it possible to evaluate such items as media coverage, product and pricing acceptance, and sales message effectiveness. The sales returns on ads running at different times of the week can be used for comparing timing effectiveness. Total sales figures for special promotions can be the basis for determining the advisability of repeating a promotion or canceling it out. Here, as in other areas of management, the greater the fund of knowledge the manager has to base his decision upon, the better will be his decision making.

Briefly, in summary, it can be said that the management of advertising and sales promotion should utilize the same management techniques that are required for efficiency in the operation of the other areas of the business enterprise. Having objectives, planning a strategy to accomplish these objectives, putting the plan into action, getting feedback on the results, and controlling the advertising and sales promotion efforts all are essential ingredients in advertising and sales promotion productiveness. This article has tried to illustrate this rather elementary observation.

# Are Montanans Bankruptcy Prone?

**ROBERT A. WATNE**
**Research Assistant**
**Bureau of Business and Economic Research**
**University of Montana, Missoula**

## *Introduction*

Credit is the backbone of our modern economy. Within the last two decades consumer credit has increased more than tenfold;[1] consumers may now obtain credit not only from traditional institutional lenders, such as banks, but also from a myriad of consumer finance organizations, as well as all types of retail business.

Concurrent with the growth in the use of consumer credit has been an increased use of bankruptcy by debtors who have become overburdened by debt or have suffered some form of financial reversal. Many individuals and groups concerned with this increased use of bankruptcy have conducted studies in selected areas in an attempt to determine the causes and effects of the growth in popularity of bankruptcy. Most have concluded bankruptcy is a potential economic problem because of the rapidly increasing dollar losses which result from its use. Many exhibit concern with the potential sociological problem resulting from the decline in social stigma which was once a part of the bankruptcy proceeding.

It is generally agreed that the occurence of bankruptcy proceedings is an indicator of the health of the economy, and " . . . the implication is clearly drawn that increased bankruptcy means a malfunction in the economy."[2] Somebody loses in each bankruptcy proceeding; however, authors are not in agreement as to *who* loses. This author believes that result-

[1] Board of Governors of the Federal Reserve System, *Federal Reserve Bulletin,* January 1966, p. 90.

[2] Martin, T. Farris, "Business Failure and Economic Growth," *Arizona Business Bulletin,* XII (October 1965), p. 3. Dr. Farris limits such an indication to the presence of business bankruptcies. This author feels that any bankruptcy indicates a malfunction; personal bankruptcies indicate an unhealthy condition in the consumer sector of the economy which may be a result of the type of malfunction to which Dr. Farris refers.

ing losses are borne by consumers rather than creditors. Businessmen, who are faced initially with losses when some customers can't pay, are able to pass the loss on to other customers through higher prices for goods and increased credit charges. Thus, every consumer should be concerned with increased bankruptcy use, since some portion of the dollars lost come out of his pocket.

Montanans, like people elsewhere in the nation, are making increased use of bankruptcy. This article will present an evaluation of the occurrence and cost of bankruptcy in Montana for the period 1950-1964, and make some comparisons with bankruptcies in the nation during the same period.

The purpose of any bankruptcy proceeding is to eliminate the debts of the bankrupt, either by a court order discharging creditors' claims with little or no payment or, as in a Chapter XIII proceeding (discussed below), by a court-approved plan of payment to creditors over an extended period of time.

Bankruptcy may be divided into two classes on the basis of the manner in which the proceeding arises. An involuntary proceeding is one initiated by a creditor who desires, or expects, some payment from the debtor, and has reason to believe that failure to begin timely proceedings will result in his failing to receive any payment from the debtor. A voluntary proceeding is one initiated by the debtor who seeks either: (1) full discharge from debts incurred without full payment to creditors (straight bankruptcy), or (2) extension of the debt time limit in return for full payment to creditors (Chapter XIII proceeding).

A Chapter XIII proceeding is not a true bankruptcy because creditors eventually receive full payment from the debtor. It is often called the Wage Earner's Plan, since the debtor agrees to turn over a portion of his wage or salary to a referee who in turn regularly pays each creditor a previously agreed-to amount (usually a prorata share) until all the debts are paid.[3]

Each of these classes (involuntary and voluntary proceedings) may be divided into three asset categories: asset, nominal-asset, and no-asset. An asset proceding is one in which there are sufficient debtor's assets to provide some return to

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[3]For a more complete explanation of a Chapter XIII proceeding, see Norman E. Taylor and George L. Mitchell, "Bankruptcy Causes and Remedies," *Montana Business Quarterly*, Vol. 1, No. 4 (Summer, 1963), pp. 54-59; and J. Hanna and J. A. MacLachlan, *The Bankruptcy Act* (7th edition; Brooklyn: Foundation Press, 1961), pp. 288-303.

creditors and to pay administration costs.[4] A nominal-asset proceeding is one in which the debtor's assets are sufficient to pay all or part of the administration costs, but not sufficient to pay any return to creditors. In a no-asset proceeding, the debtor is unable to pay either administration costs or creditors' claims.

A further classification within a given bankruptcy proceeding is made on the basis of the type of creditors' claims against the debtor: secured, priority, or unsecured.[5] A secured claim is one in which the creditor has a right to some property of the debtor as security for the payment of the debt, such as a chattel mortgage or a lien. Priority claims are: (1) administration costs, (2) commissions owed others by the debtor, (3) taxes, and (4) any claims given priority by state law. An unsecured claim is neither a secured nor a priority claim—charge accounts or personal loans for example. A single bankruptcy proceeding may, and most often does, include all three types of claims.

Unfortunately for this analysis, several limitations of the bankruptcy data presented in the reports of the Administrative Office of the U. S. Courts make it impossible to follow any bankruptcy proceeding from commencement to termination; the categories used in the tables giving data on proceedings commenced do not relate to the categories which present data on cases terminated. It is not possible to determine which, or how many, of the cases commenced in a given fiscal year are concluded in that year. Furthermore, because of the technical limitations in the data, the amounts of liabilities involved may be overstated. There is no method short of individual case analysis to determine the exact amounts involved; the procedure described below, however, produces amounts which are probably conservative estimates of the actual amounts involved.[6]

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[4]Administration costs include attorneys' fees, recording costs, accountants' fees, and others. For a complete listing of all administration costs, and their value by year, by state, see Administrative Office of the U. S. Courts, *Tables of Bankruptcy Statistics*, 1950-1964, Table F-7.

[5]For a detailed explanation of secured and priority claims, see Hanna and MacLachlan, *op. cit.*, pp. 3, 5 and 91-92.

[6]The data are taken from the initial filings, and often a debtor will list a creditor's claim in two or all three categories—secured, priority, and unsecured—in order to avoid failure of discharge due to improper classification. (In asset cases it then becomes necessary for the court to determine the nature of each creditor's claim to insure proper distribution of the proceeds of the estate. In nominal- and no-asset cases,

## Bankruptcy Occurrence

The "popularity" of bankruptcy proceedings both in Montana and in the nation grew substantially during the 1950-1964 period, as is shown in Table 1. For Montana, the number of proceedings commenced increased from 95 in fiscal 1950 to 423 in fiscal 1964—an increase of 345 percent. For the nation the percentage increase for the period was 414 percent. The table also reveals a significant factor for both Montana and the nation: most bankruptcies commenced were voluntary—that means they were a willful choice by the debtors to avoid liabilities they had incurred. The degree of "willfulness" on the part of the debtor is difficult to determine because it is possible that he seeks bankruptcy because of unavoidable financial difficulty, or because he has been threatened with garnishment or other proceedings by his creditors. Those who worry about the "disregard" of moral and legal obligations by debtors might be interested in the fact that for the nation during the 1950-1964 period an average of 17 percent of total voluntary proceedings were Chapter VIII proceedings.

In Montana during the 1950-1964 period, the number of Chapter XIII proceedings commenced was negligible. In five of the fifteen years, no voluntary Chapter XIII proceedings were initiated. For the entire period, such proceedings amounted to less than 2 percent of total voluntary proceedings.

Table 2 presents the same voluntary bankruptcies by occupations of the debtors. Obviously, by far the greatest proportion of debtors who sought discharge in bankruptcy were "employees"— wage and salary workers not self-employed. This was true for both Montana and the nation, though the two differed in degree.

For Montana, in fiscal 1950 85 percent of total bankruptcies were voluntary proceedings commenced by employees; in fiscal 1964 these voluntary employee bankruptcies had risen to 91 percent of the total. For the nation, the figures for fiscal 1950 and fiscal 1964 were 72 percent and 83 percent respectively. Employed wage and salary workers accounted for

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since there is no payment to creditors, such determinations are not necessary.) The various liability categories may also include claims which are nondischargeable, such as taxes, certain court judgments, creditors' claims not properly scheduled, and wages or commissions due to others which were earned within three months before the proceeding was commenced. (For a detailed listing of nondischargeable claims, see Hanna and MacLachlan, op. cit., p. 29.)

**TABLE 1**

**BANKRUPTCY CASES COMMENCED, BY TYPE OF CASE, MONTANA AND UNITED STATES, FISCAL YEARS 1950-1964**

| | | Voluntary | | | | Inv unta |
|---|---|---|---|---|---|---|
| **Montana** | Total | Total | Straight[1] | Other | XIII | T |
| 1950 | 95 | 92 | 90 | 2 | | |
| 1951 | 75 | 75 | 75 | | | |
| 1952 | 65 | 64 | 64 | | | |
| 1953 | 64 | 64 | 63 | 1 | | |
| 1954 | 86 | 86 | 85 | | 1 | |
| 1955 | 126 | 126 | 124 | 1 | 1 | |
| 1956 | 106 | 105 | 104 | | 1 | |
| 1957 | 159 | 158 | 156 | | 2 | |
| 1958 | 197 | 195 | 195 | | | |
| 1959 | 243 | 241 | 239 | | 2 | |
| 1960 | 254 | 253 | 240 | 1 | 12 | |
| 1961 | 385 | 379 | 371 | | 8 | |
| 1962 | 561 | 559 | 538 | 2 | 19 | |
| 1963 | 543 | 537 | 527 | 1 | 9 | |
| 1964 | 423 | 418 | 409 | 1 | 8 | |
| **United States** | | | | | | |
| 1950 | 33,392 | 32,008 | 25,268 | 733 | 6,007 | 1,38 |
| 1951 | 35,193 | 34,080 | 26,600 | 556 | 6,924 | 1,11 |
| 1952 | 34,873 | 33,810 | 25,909 | 504 | 7,397 | 1,06 |
| 1953 | 40,087 | 39,006 | 29,817 | 519 | 8,670 | 1,08 |
| 1954 | 53,136 | 51,728 | 41,339 | 755 | 9,634 | 1,40 |
| 1955 | 59,404 | 58,147 | 47,652 | 631 | 9,864 | 1,25 |
| 1956 | 62,086 | 60,844 | 50,659 | 650 | 9,535 | 1,24 |
| 1957 | 73,761 | 72,564 | 60,337 | 678 | 11,549 | 1,19 |
| 1958 | 91,668 | 90,250 | 76,050 | 809 | 13,391 | 1,41 |
| 1959 | 100,672 | 99,373 | 85,505 | 875 | 12,993 | 1,29 |
| 1960 | 110,034 | 108,729 | 94,415 | 715 | 13,599 | 1,30 |
| 1961 | 146,643 | 145,188 | 124,386 | 1,079 | 19,723 | 1,45 |
| 1962 | 147,780 | 146,398 | 122,499 | 1,017 | 22,880 | 1,38 |
| 1963 | 155,493 | 154,074 | 128,405 | 1,339 | 24,329 | 1,41 |
| 1964 | 171,719 | 170,369 | 141,828 | 1,249 | 27,292 | 1,35 |

[1]Including special relief cases not shown elsewhere.
Source: Administrative Office of the U. S. Courts, *Tables of Bank-ruptcy Statistics*, 1950-1964, Table F-2.

69.5 percent of Montana's civilian labor force in 1950 and 76. percent in 1960. For the nation these figures were 75.6 an 79.1 percent.[7] Obviously, employees as an occupational grou made disproportionate use of bankruptcy during the period.

[7]Derived from data appearing in U. S. Department of Commerce, Burea of the Census, *Statistical Abstract of the United States*, 1965, pp. 21 and 228, and *U. S. Census of Population: 1960, General Social an Economic Characteristics, Montana*, Final Report PC (1)-28C, pp. 28-2

**TABLE 2**

**VOLUNTARY BANKRUPTCY CASES COMMENCED, BY OCCUPATIONAL SOURCE, MONTANA AND UNITED STATES, FISCAL YEARS 1950-1964**

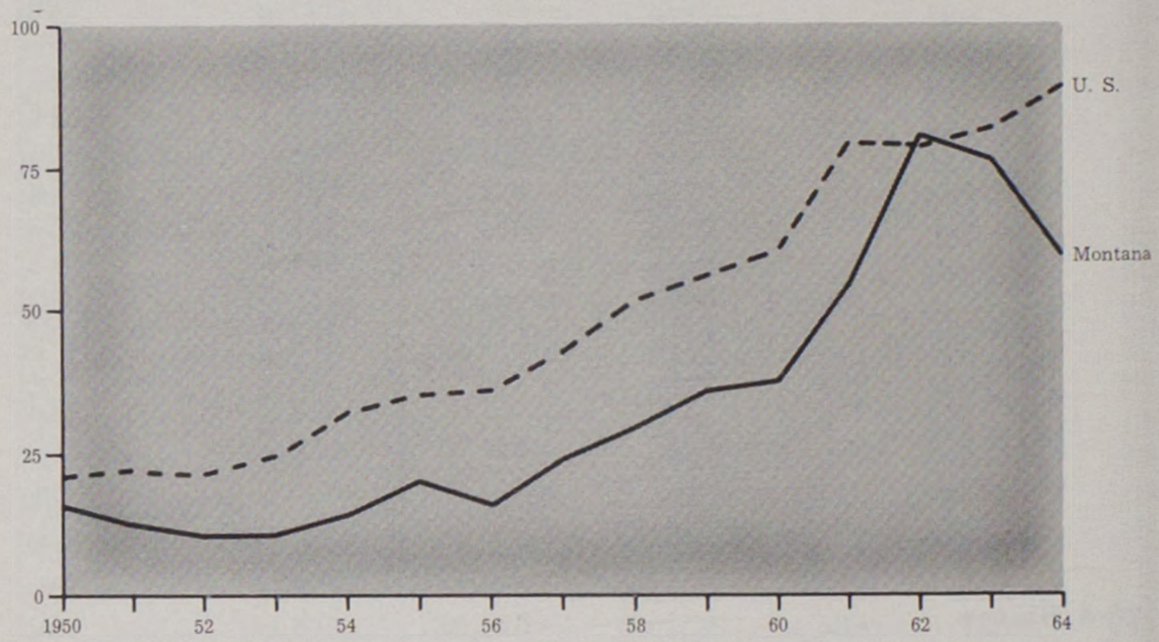
| Montana | Total | Farmer | Employee | Professional | Others Not In Business | Merchant | Manufacturer | Others In Business |
|---|---|---|---|---|---|---|---|---|
| 1950 | 92 | 2 | 78 | | 1 | 4 | 1 | 6 |
| 1951 | 75 | 1 | 68 | | | 2 | | 4 |
| 1952 | 64 | 1 | 57 | | 1 | 2 | | 3 |
| 1953 | 64 | 1 | 55 | 1 | 4 | 1 | | 2 |
| 1954 | 86 | 1 | 77 | | | 4 | | 4 |
| 1955 | 126 | 1 | 109 | | 5 | 5 | | 6 |
| 1956 | 105 | | 98 | | | 2 | | 5 |
| 1957 | 158 | | 145 | 2 | 5 | 3 | | 3 |
| 1958 | 195 | 4 | 168 | 1 | 5 | 5 | | 12 |
| 1959 | 241 | 3 | 216 | 2 | 2 | 6 | | 12 |
| 1960 | 253 | 7 | 222 | 3 | 3 | 2 | 1 | 15 |
| 1961 | 379 | 3 | 340 | 1 | 11 | 4 | | 20 |
| 1962 | 559 | 2 | 499 | 9 | 5 | 13 | | 31 |
| 1963 | 537 | 4 | 494 | 6 | 5 | 7 | | 21 |
| 1964 | 418 | 1 | 382 | 1 | 10 | 3 | 1 | 20 |
| **United States** | | | | | | | | |
| 1950 | 32,008 | 290 | 22,933 | 126 | 2,098 | 2,063 | 578 | 3,920 |
| 1951 | 34,080 | 205 | 25,984 | 125 | 1,817 | 1,935 | 370 | 3,644 |
| 1952 | 33,810 | 196 | 26,527 | 135 | 1,788 | 1,875 | 360 | 2,929 |
| 1953 | 39,006 | 214 | 31,253 | 137 | 2,049 | 1,969 | 361 | 3,023 |
| 1954 | 51,728 | 322 | 40,889 | 151 | 3,354 | 2,566 | 559 | 3,887 |
| 1955 | 58,147 | 386 | 46,163 | 212 | 4,043 | 2,766 | 559 | 4,018 |
| 1956 | 60,844 | 400 | 48,784 | 208 | 3,820 | 2,640 | 538 | 4,454 |
| 1957 | 72,564 | 403 | 59,053 | 202 | 4,551 | 2,679 | 520 | 5,156 |
| 1958 | 90,250 | 332 | 73,379 | 281 | 6,870 | 2,922 | 562 | 5,904 |
| 1959 | 99,373 | 408 | 81,516 | 429 | 7,421 | 2,929 | 494 | 6,176 |
| 1960 | 108,729 | 453 | 89,639 | 493 | 8,103 | 2,728 | 489 | 6,824 |
| 1961 | 145,188 | 546 | 119,117 | 616 | 12,280 | 3,735 | 616 | 8,278 |
| 1962 | 146,398 | 548 | 120,742 | 768 | 11,378 | 3,804 | 579 | 8,581 |
| 1963 | 154,074 | 554 | 127,157 | 749 | 12,019 | 3,797 | 680 | 9,118 |
| 1964 | 170,369 | 565 | 141,550 | 779 | 13,643 | 4,533 | 660 | 8,639 |

Source: Administrative Office of the U. S. Courts, *Tables of Bankruptcy Statistics*, 1950-1964, Table F-3.

Figure 1 shows graphically the sharp increase in the number of voluntary bankruptcies per 100,000 population. The decreases in Montana in 1963 and 1964 probably are not an indication of future trend, since it is estimated that 600 bankruptcy petitions were filed in the state in 1965.[8] Of these, approximately 588 should be voluntary bankruptcies.[9]

**FIGURE 1**

**NUMBER OF VOLUNTARY BANKRUPTCY CASES COMMENCED, PER 100,000 POPULATION,[1] MONTANA AND THE UNITED STATES, FISCAL YEARS 1950-1964**




[1]Estimated population as of the end of the fiscal year.
Source: Derived from data appearing in Table 2, page 75, and in U. S. Department of Commerce, Bureau of the Census, *Current Population Reports: Population Estimates* (Series P-25), Nos. 258, 267, 280, 294, and 317.

## *Bankruptcy Cost*

In order to relate the number of bankruptcies to losses resulting from bankruptcy, it is necessary to look at cases *concluded* during the 1950-1964 period.[10] Table 3 presents one available breakdown of cases concluded.

In relation to the total number of cases concluded, Chapter

[8]*Great Falls Tribune*, January 30, 1966, p. 1.

[9]Assuming the 1961-1964 ratio of voluntary employee bankruptcies to total bankruptcies continued. The incidence rate for 1965 would then be 83.2 per 100,000 population, compared to the following: 1950, 15.5; 1962, 80.2; 1963, 76.6; and 1964, 59.5.

[10]As was suggested in the introduction, a bankruptcy case initiated in a given fiscal year is not necessarily terminated during the same fiscal year. This becomes evident upon comparison of the number of cases commenced in a given fiscal year (Table 1, page 74) to the number of cases concluded in the same fiscal year (Table 3, page 77).

TABLE 3

NUMBER OF BANKRUPTCY CASES CONCLUDED, MONTANA AND UNITED STATES, FISCAL YEARS 1950-1964

| | | | | Bankruptcy Granted | | |
|---|---|---|---|---|---|---|
| Montana | Total Concluded | Dismissed | Chapter XIII | Total | Asset | Nominal- and No-Asset |
| 1950 | 44 | 5 | | 39 | 2 | 37 |
| 1951 | 56 | 3 | | 53 | 1 | 52 |
| 1952 | 131 | 43 | | 88 | 2 | 86 |
| 1953 | 74 | 2 | | 72 | 10 | 62 |
| 1954 | 76 | 5 | | 71 | 8 | 63 |
| 1955 | 111 | 5 | | 106 | 6 | 100 |
| 1956 | 121 | 5 | | 116 | 4 | 112 |
| 1957 | 135 | 1 | | 134 | 12 | 122 |
| 1958 | 130 | 9 | | 121 | 12 | 109 |
| 1959 | 238 | 2 | | 236 | 7 | 229 |
| 1960 | 252 | 8 | | 244 | 15 | 229 |
| 1961 | 327 | 4 | 4 | 319 | 9 | 310 |
| 1962 | 415 | 4 | 2 | 409 | 8 | 401 |
| 1963 | 487 | 11 | 4 | 472 | 16 | 458 |
| 1964 | 586 | 42 | 6 | 538 | 23 | 515 |
| **United States** | | | | | | |
| 1950 | 25,582 | 3,336 | 1,747 | 20,499 | 3,792 | 16,707 |
| 1951 | 32,647 | 3,655 | 4,128 | 24,864 | 4,538 | 20,326 |
| 1952 | 39,611 | 6,487 | 5,550 | 27,574 | 5,284 | 22,290 |
| 1953 | 37,485 | 5,029 | 4,749 | 27,707 | 5,062 | 22,645 |
| 1954 | 43,494 | 6,072 | 4,541 | 32,881 | 5,062 | 27,819 |
| 1955 | 52,240 | 5,905 | 4,344 | 41,991 | 6,320 | 35,671 |
| 1956 | 58,314 | 6,156 | 5,481 | 46,677 | 7,035 | 39,642 |
| 1957 | 64,666 | 6,906 | 5,643 | 52,117 | 7,668 | 44,449 |
| 1958 | 79,681 | 8,086 | 5,522 | 66,073 | 8,449 | 57,624 |
| 1959 | 96,845 | 10,284 | 5,840 | 80,721 | 9,301 | 71,420 |
| 1960 | 99,317 | 9,452 | 5,920 | 83,945 | 10,485 | 73,460 |
| 1961 | 117,943 | 10,720 | 6,892 | 100,331 | 10,793 | 89,538 |
| 1962 | 137,709 | 12,962 | 6,830 | 117,917 | 12,890 | 105,027 |
| 1963 | 141,440 | 13,334 | 8,801 | 119,305 | 14,531 | 104,774 |
| 1964 | 162,367 | 15,233 | 11,045 | 136,089 | 15,124 | 120,865 |

Source: Administrative Office of the U. S. Courts, *Tables of Bankruptcy Statistics*, 1950-1964, Tables F-4, F-4a., F-6, F-9, and F-10.

XIII proceedings are conspicuously insignificant in Montana, and relatively insignificant for the nation. It must be remembered, however, that the duration of a Chapter XIII proceeding would naturally be greater than other proceedings, since it involves repayment over an extended period of time. Thus, such proceedings initiated in the latter part of the period would not appear as concluded cases. For the nation, the number of

Chapter XIII proceedings concluded during each of the fiscal years increased at approximately the same rate as the total number of cases concluded, and on the average accounted for 7 percent of cases concluded. In Montana, Chapter XIII proceedings concluded appeared only in the last four years, and accounted for an average of less than 1 percent of cases concluded in those years.[11]

Table 3 shows further that nominal- and no-asset bankruptcies combined are by far most the prominent group of bankruptcies concluded. For the nation, during the 1950-1964 period, they accounted for 82 to 89 percent of cases concluded in which bankruptcy was granted; in Montana, 95 to 96 percent of bankruptcy adjudications were nominal- and no-asset cases.

It is disturbing to note that the percentage increase in the number of nominal- and no-asset cases concluded during the 1950-1964 period was twice as great in Montana as in the nation: 1,292 percent compared to 624 percent. As mentioned above, in nominal- and no-asset cases there is no payment whatsoever to priority or unsecured creditors. Secured creditors may recover the value of the security pledged against their claims, but in many instances the amount of indebtedness exceeds the value of the security pledged. In such cases, the creditor may become a general unsecured creditor for the remaining amount due him.[12]

Not all persons seeking to take bankruptcy are permitted to do so. In some instances the court, after reviewing the petitions filed, will deny bankruptcy. Some reasons for denial are: destruction of financial records, fraud in obtaining credit, fraudulent transfer or concealment of property, discharge in bankruptcy within six years of the date of filing the subsequent bankruptcy petition, and failure to explain satisfactorily losses or deficiencies of assets.[13] However, between 1950 and 1964, 95 percent or more of the persons in the U. S. applying for bankruptcy and reporting no assets or nominal assets were

[11]As shown before, the ratio of Chapter XIII proceedings commenced to total voluntary proceedings commenced was 8 times greater for the nation than for Montana.

[12]If the secured creditor proceeds against the security, and the amount received from the sale is not sufficient to pay the debt due, the creditor must then obtain a deficiency judgment against the debtor in order to have his claim recognized by the court.

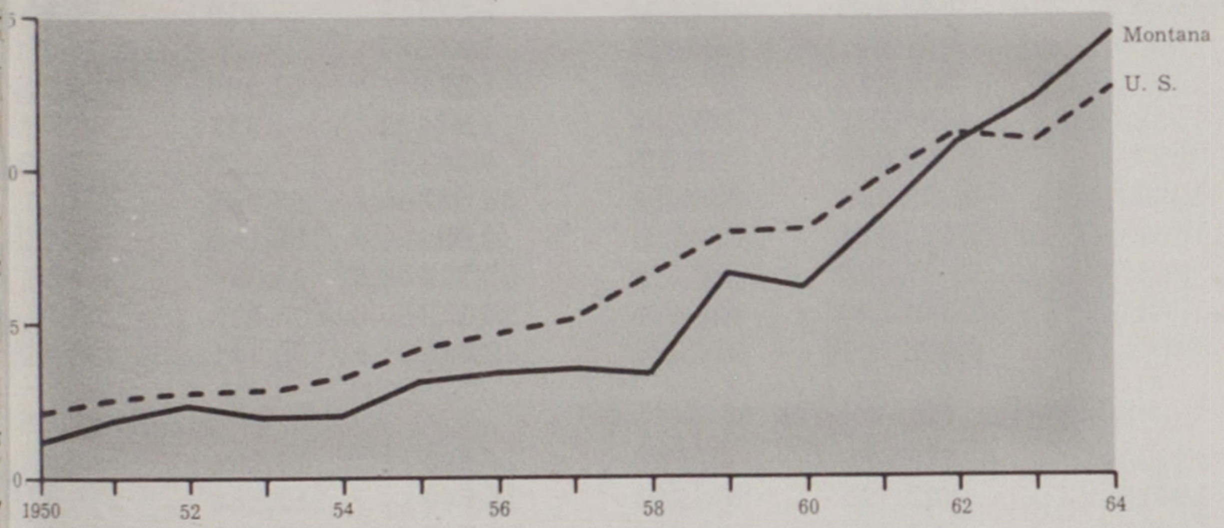
[13]For a list of specific reasons for denial of bankruptcy, see Hanna and MacLachlan, *op. cit.*, p. 27.

permitted to proceed; in Montana the percentage was only slightly less.[14]

Figure 2 relates the increase in nominal- and no-asset bankruptcies granted to population during the period. The graph shows that the proportion of the population involved in nomi-

**FIGURE 2**

**NUMBER OF NOMINAL- AND NO-ASSET CASES IN WHICH BANKRUPTCY WAS GRANTED, PER 100,000 POPULATION,[1] MONTANA AND THE UNITED STATES, FISCAL YEARS 1950-1964**




[1] Estimated population as of the end of the fiscal year.

Source: Derived from data appearing in Administrative Office of the U. S. Courts, *Tables of Bankruptcy Statistics*, 1950-1964, Table F-4a, and in U. S. Department of Commerce, Bureau of the Census, *Current Population Reports: Population Estimates*, (Series P-25), Nos. 258, 267, 280, 294, 304, and 317.

nal- and no-asset bankruptcies increased significantly during the 1950-1964 period. During the latter part of the period the rate of increase was especially high.

Table 4 shows the value of total indebtedness claimed by persons seeking bankruptcy. For the nation, liabilities claimed in all types of cases were $215,299,000 in fiscal 1950, and $1,-691,671,000 in fiscal 1964, an increase of 686 percent during the period. Indebtedness claimed in nominal- and no-asset cases was $117,551,000 in fiscal 1950 and $1,352,413,000 in fiscal 1964, an increase of 1,050 percent. In contrast, between 1950 and 1964 total consumer credit increased only 258 percent.

For Montana the growth rate was substantially greater. Liabilities claimed in all types of cases totalled $271,353 in fiscal

[14] Administrative Office of the U. S. Courts, *op. cit.*, Tables F-4 and F-4a.

## TABLE 4

### AMOUNT OF LIABILITIES CLAIMED OR ALLOWED, BY ASSET CLASS OF CASE, BY TYPE OF CREDITOR, MONTANA AND UNITED STATES, FISCAL YEARS 1950-1964

| Montana | Total, All Types | Asset[1] | | | |
|---|---|---|---|---|---|
| | | Total | Priority | Secured | Unsecure |
| 1950 | $ 271,353 | $127,665 | $10,090 | $86,204 | $ 31,371 |
| 1951 | 201,323 | 2,722 | 203 | | 2,519 |
| 1952 | 670,785 | 122,750 | 302 | 69,321 | 53,127 |
| 1953 | 497,703 | 114,883 | 3,339 | 5,577 | 105,967 |
| 1954 | 604,767 | 146,038 | 6,037 | | 140,001 |
| 1955 | 545,292 | 73,648 | 1,425 | 219 | 72,004 |
| 1956 | 751,901 | 16,677 | 1,117 | | 15,560 |
| 1957 | 873,243 | 57,398 | 1,587 | 11,598 | 44,212 |
| 1958 | 493,791 | 31,834 | 1,274 | 1,757 | 28,803 |
| 1959 | 1,768,880 | 83,679 | 4,183 | 7,050 | 72,446 |
| 1960 | 2,552,089 | 688,052 | 28,223 | 67,958 | 591,871 |
| 1961 | 3,113,746 | 112,797 | 6,909 | 22,146 | 83,742 |
| 1962 | 3,641,668 | 386,618 | 58,110 | 13,591 | 314,917 |
| 1963 | 3,568,180 | 103,645 | 25,315 | 815 | 77,515 |
| 1964 | 4,863,767 | 674,787 | 149,825 | 89,111 | 435,851 |
| **United States (thousands of dollars)** | | | | | |
| 1950 | 215,299 | 97,748 | 14,515 | 14,262 | 68,972 |
| 1951 | 252,125 | 106,301 | 15,640 | 12,186 | 78,475 |
| 1952 | 291,287 | 134,690 | 21,717 | 18,720 | 94,253 |
| 1953 | 283,104 | 131,262 | 22,475 | 16,414 | 92,373 |
| 1954 | 318,733 | 125,370 | 17,697 | 16,224 | 91,449 |
| 1955 | 403,584 | 156,601 | 28,201 | 18,841 | 109,560 |
| 1956 | 448,696 | 166,517 | 23,796 | 18,114 | 124,607 |
| 1957 | 523,093 | 197,111 | 25,162 | 22,007 | 149,942 |
| 1958 | 631,948 | 195,464 | 27,758 | 22,833 | 144,873 |
| 1959 | 736,841 | 210,573 | 25,185 | 21,803 | 163,586 |
| 1960 | 822,506 | 235,449 | 25,969 | 28,886 | 180,594 |
| 1961 | 988,084 | 257,079 | 33,220 | 29,656 | 194,203 |
| 1962 | 1,246,400 | 274,835 | 27,920 | 44,070 | 202,845 |
| 1963 | 1,401,059 | 327,037 | 30,534 | 35,185 | 261,318 |
| 1964 | 1,691,671 | 339,258 | 35,685 | 38,118 | 265,455 |

NOTE: Totals may not add because the numbers have been rounded.
[1]Claims allowed upon adjudication.
[2]Claims as scheduled in initial filings.
Source: Administrative Office of the U. S. Courts, *Tables of Bankruptc Statistics,* 1950-1964, Tables F-6, F-9, and F-10.

1950 and $4,863,767 in fiscal 1964, an increase of 1,692 percent Liabilities claimed in nominal- and no-asset cases were $143,-688 in fiscal 1950 and in fiscal 1964 had grown to $4,188,980, ar increase of 2,815 percent! Unfortunately, no information as tc total consumer credit outstanding is available for Montana.

**TABLE 4 (Continued)**

| | Nominal- and No-Asset[2] | | | |
|---|---|---|---|---|
| **Montana** | Total | Priority | Secured | Unsecured |
| 1950 | $ 143,688 | $ 3,724 | $ 12,335 | $ 127,629 |
| 1951 | 198,601 | 2,828 | 23,433 | 172,340 |
| 1952 | 548,035 | 16,518 | 36,835 | 494,682 |
| 1953 | 382,820 | 24,992 | 85,474 | 272,354 |
| 1954 | 458,729 | 8,998 | 49,563 | 400,168 |
| 1955 | 421,644 | 22,550 | 51,265 | 397,829 |
| 1956 | 735,224 | 23,421 | 112,450 | 599,354 |
| 1957 | 815,845 | 24,237 | 137,073 | 654,536 |
| 1958 | 461,957 | 7,524 | 90,686 | 363,747 |
| 1959 | 1,685,201 | 44,833 | 258,567 | 1,381,800 |
| 1960 | 1,864,037 | 61,109 | 479,192 | 1,323,735 |
| 1961 | 3,000,949 | 84,567 | 920,277 | 1,996,105 |
| 1962 | 3,255,050 | 48,975 | 1,111,928 | 2,094,147 |
| 1963 | 3,464,535 | 96,182 | 1,195,432 | 2,172,921 |
| 1964 | 4,188,980 | 88,380 | 1,429,717 | 2,670,883 |
| **United States** | | | | |
| 1950 | 117,551 | 4,092 | 24,523 | 88,936 |
| 1951 | 145,824 | 6,887 | 31,802 | 107,134 |
| 1952 | 156,597 | 6,948 | 34,691 | 114,958 |
| 1953 | 151,842 | 15,692 | 35,105 | 101,044 |
| 1954 | 193,363 | 8,191 | 46,301 | 138,872 |
| 1955 | 246,983 | 13,633 | 64,315 | 169,035 |
| 1956 | 282,179 | 11,979 | 78,631 | 191,570 |
| 1957 | 325,982 | 14,458 | 100,299 | 211,225 |
| 1958 | 436,484 | 15,320 | 145,773 | 275,393 |
| 1959 | 526,268 | 15,786 | 185,583 | 324,899 |
| 1960 | 587,057 | 18,650 | 207,427 | 360,980 |
| 1961 | 731,005 | 19,701 | 282,668 | 428,635 |
| 1962 | 971,565 | 24,403 | 405,541 | 541,619 |
| 1963 | 1,074,022 | 25,867 | 428,555 | 619,599 |
| 1964 | 1,352,413 | 31,734 | 537,955 | 782,724 |

When the percentage increases in the amount of liabilities claimed are compared to the increases in the number of cases concluded (discussed above), it becomes clear that the amount of indebtedness involved grew at a much faster rate than the number of bankruptcy cases concluded. For the nation, the number of nominal- and no-asset cases increased 625 percent, while claimed indebtedness increased 1,050 percent. In Montana, the number of such cases increased 1,292 percent, and liabilities increased 2,815 percent.

**TABLE 5**

**PROBABLE VALUE OF CREDITORS' CLAIMS DISCHARGED WITHOUT PAYMENT IN BANKRUPTCY CASES CONCLUDED, MONTANA AND UNITED STATES, FISCAL YEARS 1950-1964**

**Montana (dollars)**

| | Total, All Classes | Asset[1] | Nominal- and No-Asset: Total | Priority & Unsecured[2] | Secured |
|---|---|---|---|---|---|
| 1950 | 158,609 | 30,894 | 127,715 | 124,785 | 2,930 |
| 1951 | 173,231 | 1,256 | 171,975 | 166,410 | 5,565 |
| 1952 | 533,109 | 38,720 | 494,389 | 485,640 | 8,749 |
| 1953 | 401,868 | 99,088 | 302,780 | 282,479 | 20,301 |
| 1954 | 526,391 | 125,912 | 400,479 | 388,708 | 11,771 |
| 1955 | 480,063 | 68,528 | 411,535 | 399,360 | 12,175 |
| 1956 | 633,004 | 14,661 | 618,343 | 591,630 | 26,707 |
| 1957 | 728,149 | 50,760 | 677,389 | 644,834 | 32,555 |
| 1958 | 402,734 | 28,489 | 374,245 | 352,707 | 21,538 |
| 1959 | 1,484,697 | 67,986 | 1,416,711 | 1,355,301 | 61,410 |
| 1960 | 2,076,758 | 647,348 | 1,429,410 | 1,315,602 | 113,808 |
| 1961 | 2,283,763 | 88,559 | 2,195,204 | 1,976,638 | 218,566 |
| 1962 | 2,653,905 | 353,856 | 2,300,049 | 2,035,966 | 264,083 |
| 1963 | 2,534,933 | 95,370 | 2,439,463 | 2,155,648 | 283,915 |
| 1964 | 3,475,920 | 515,062 | 2,960,858 | 2,621,300 | 339,558 |

[1]Liabilities claimed, less payments to creditors.
[2]95 percent of liabilities claimed.
[3]23.75 percent of liabilities claimed (25 percent of 95 percent of liabilities claimed).
Source: Derived from data in Table 4 and Administrative Office of the U. S. Courts, *Tables of Bankruptcy Statistics*, 1950-1964, Table F-6.

In order to properly estimate the true dollar losses from bankruptcies, the values shown in Table 4 must be adjusted. For asset cases, liabilities do not represent actual losses, since creditors do receive some payment on their claims. The **Asset** column of Table 5 shows the net credit losses after payment to creditors. Both nominal- and no-asset cases result in discharge without payment to creditors. However, as was mentioned above, the initial petitions for such cases may include nondischargeable claims which should be excluded in determining the estimated losses. Professor Vern Countryman, of the Harvard Law School, has estimated that 5 percent of the liabilities scheduled in such cases are not discharged.[15] The **Nominal- and No-Asset, Priority and Unsecured** column of Table 5 represents 95 percent of these liabilities as shown in Table 4. A further adjustment is necessary because of the prob-

[15]Vern Countryman, "The Bankruptcy Boom," *Harvard Law Review*, Vol. LXXVII (June, 1964), p. 1456.

**TABLE 5 (Continued)**

**'nited States (thousands of dollars)**

| 'otal, All Classes | Asset[1] | Nominal- and No-Asset Total | Priority & Unsecured[2] | Secured[3] |
|---|---|---|---|---|
| ; 155,819 | $ 76,340 | $ 79,476 | $ 73,652 | $ 5,824 |
| 200,321 | 84,448 | 115,873 | 108,320 | 7,553 |
| 229,813 | 105,763 | 124,050 | 115,811 | 8,239 |
| 225,012 | 105,775 | 119,237 | 110,899 | 8,338 |
| 252,068 | 101,361 | 150,707 | 139,710 | 10,997 |
| 318,640 | 129,830 | 188,810 | 173,535 | 15,275 |
| 348,808 | 136,761 | 212,047 | 193,372 | 18,675 |
| 400,442 | 162,222 | 238,220 | 214,399 | 23,821 |
| 470,421 | 159,623 | 310,798 | 276,177 | 34,621 |
| 542,053 | 174,326 | 367,727 | 323,651 | 44,076 |
| 601,212 | 191,299 | 409,913 | 360,649 | 49,264 |
| 706,190 | 213,137 | 493,053 | 425,919 | 67,134 |
| 856,468 | 222,431 | 634,037 | 537,721 | 96,316 |
| 986,621 | 271,646 | 714,975 | 613,193 | 101,782 |
| 1,189,524 | 288,025 | 901,499 | 773,735 | 127,764 |

able repayment of *some* amount to secured creditors of nominal and no-asset bankrupts. Conversations between this author and various creditors over a period of time have led to the conclusion that recovery of three-fourths of the value of a secured claim in such a proceeding is probably better than average. The column **Nominal- and No-Asset, Secured** represents the estimated loss to secured creditors assuming a 75 percent recovery.

The resulting probable amounts of bankruptcy losses in Montana and the nation are shown in Table 5. Based on these estimates, total bankruptcy losses in the nation increased 663 percent during the period; nominal- and no-asset losses increased 1,034 percent. Bankruptcy cost the nation over $1.1 billion in debts discharged without payment in fiscal 1964, an amount equal to three-fourths of the estimated personal income of *all people in Montana* in that year.[16]

In Montana, the rate of increase in bankruptcy losses during the period was much higher than in the nation. Losses from all bankruptcies increased 2,092 percent, and nominal- and no-asset losses increased an alarming 2,218 percent. In fiscal

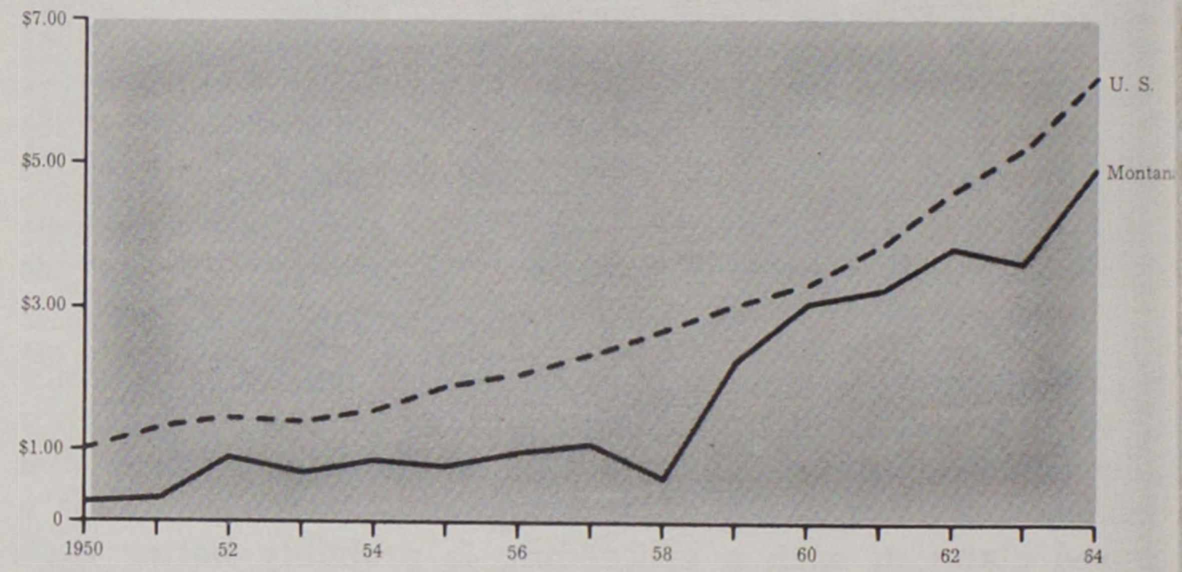
[16]U. S. Department of Commerce, Office of Business Economics, *Survey of Current Business,* July, 1965, p. 16.

1964, the estimated value of losses from bankruptcies was $3.5 million, an amount greater than wages paid in that year to all covered employees in each of 34 of Montana's 56 counties.[17]

Another aspect of this sharp increase in dollar losses from bankruptcy is shown in Figure 3, which relates dollar losses to population during the period. For the nation, the dollar loss per person in the population increased 504 percent; in Montana, the increase was 1,733 percent. In fiscal 1950, the estimated dollar loss per person was almost four times greater for the nation than for Montana; by fiscal 1964, this ratio had dropped to one and one-quarter times greater.

**FIGURE 3**

**DOLLAR LOSSES FROM BANKRUPTCY, PER PERSON IN THE POPULATION,[1] MONTANA AND THE UNITED STATES, FISCAL YEARS 1950-1964**




[1]Estimated population as of the end of the fiscal year.

Source: Derived from data appearing in Table 5, page 83, and in U. S. Department of Commerce, Bureau of the Census, *Current Population Reports: Population Estimates*, (Series P-25), Nos. 253, 267, 280, 294, 304, and 317.

There appears to be more than a coincidental relationship between the growth of bankruptcy losses and the passing of Mon-

[17]Unemployment Compensation Commission of Montana, *Industrial Wages, Wage-Earners, Employers, By County*, Fiscal years 1950 and 1964 (data for employees covered by unemployment compensation plans only).

tana's Consumer Loan Act,[18] which led to a rapid expansion of the consumer loan industry in this state.[19] There is good reason to believe that the long strike in 1959-1960 in Butte resulted in increased use of bankruptcy in that area. Also, within the last decade retailers have made numerous "easy credit" plans available to consumers. These three factors, together with an apparent increasing awareness of the availability of bankruptcy, may explain the rapid increases in the number of bankruptcy cases and the amount of losses.

## *Who Bears the Cost?*

At this time, this author knows of no definitive study that purports to determine the true burden of bankruptcy losses. It may well be that such a study could never be made for lack of complete information. Nevertheless, it is likely that the total cost of bankruptcy is not borne by creditors. Creditors may recover part of their losses through reduced income taxes or increased prices charged consumers, or both.

Creditors are allowed to recover part of the losses arising from bankruptcy by deducting them as an expense when reporting income for tax purposes. The amount recovered may be as high as 48 percent of the loss if the creditor is a corporation making over $25,000 a year, and 22 percent if the income is less than $25,000 a year.[20] For noncorporate creditors, the recovery is dependent upon the level of income and the resultant tax rate.[21]

Partial recovery of losses through reduced taxes is an accepted method of allowing a business to continue operations even when faced with sizeable unpredictable losses which otherwise would probably result in severe restriction of the business as a going concern. In effect, then, all individuals in our society, at least those paying taxes, help share the burden of such losses.

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[18]*Revised Codes of Montana, 1947*, Title 47, section 201. The Act was passed March 18, 1959, and became effective July 1, 1959.

[19]In 1959 there were 42 personal credit institutions in Montana; by 1962 their ranks had increased to 114. See U. S. Department of Commerce, Bureau of the Census, *County Business Patterns, Part 9*, 1959, p. 89, and 1962, p. 104.

[20]At the existing corporate tax rates. *1966 Federal Tax Course* (Englewood Cliffs: Prentice-Hall, 1965), pp. 3103 ff.

[21]*Ibid.*, pp. 1109 ff.

As far as competition will allow, creditors may recover additionally through increased prices for goods and services purchased by consumers. The limits placed on possible price increases by the competitive relationship among creditors may, however, become less and less significant. Several authors have noted with some alarm the increasing frequency of appearance of retail creditors and consumer finance companies in bankruptcy proceedings.[22] If these competitive creditors face the same problem—increased losses through bankruptcy—and all seek to raise prices of goods and credit, how effective will the competitive limitation be? Might it not be reasonable to conclude that consumers can expect to bear some of the losses which result in part from poor credit policies of their creditors?

## *Summary and Conclusions*

Bankruptcy has become a significant economic factor for both the nation and Montana. The recent rates of increase for the nation indicate that total debts of persons seeking to take bankruptcy will probably reach an annual rate in excess of $2 billion by fiscal 1970; of this, $1 billion or more will be discharged with no payment to creditors. In Montana, recent rates of increase indicate that debts involved in bankruptcy proceedings may be expected to reach an annual rate of more than $5 million by fiscal 1970. Debts discharged with no payment to creditors will probably amount to more than $4 million annually.

Efforts have been expended on many fronts in an attempt to curb this rapid increase. There is presently before Congress a proposed amendment to the Bankruptcy Act which would place the burden of showing the inapplicability of the Chapter XIII proceeding on the debtor.[23] Unfortunately, the bill's proponents attribute little weight to the effect such a proceeding has on the debtor's financial position. In addition to the money he already owes, the Chapter XIII provisions add additional debt in the way of administrative costs which may easily be 25 percent or more of prior indebtedness.

Attempts at consumer education have been and will continue to be made by various groups. Generally these are designed to enable the consumer to determine the actual cost of

[22]See, for example, Countryman, *op. cit.*, pp. 1458-1459.
[23]U. S. Congress, House, 89th Congress, 2nd Session, 1966, H.R. 292.

borrowing; only a few of the many programs try to show a consumer how to analyze *his* immediate and long-run *financial condition*.

Federal "truth in lending" legislation and the "full disclosure" legislation of many states require creditors to show potential debtors the actual cost of credit in terms which the debtor will understand.

It is doubtful that any one, or even a combination of these proposals or efforts will significantly affect the increasing use of bankruptcy by overburdened debtors. As long as the cost of credit among alternative sources available to the borrower remains relatively equal, regardless of its cost in relation to the dollar value of credit sought, an increasing proportion of consumers will use "easy credit" plans to finance purchases.

Perhaps a more reasonable solution would be to aim education at non-institutional creditors as well as the consumer-debtors. Frequent conversations with various creditors and exposure to different explanations of credit policies indicate that non-institutional lenders for the most part look only to the potential debtor's *immediate* ability to pay in evaluating the probability that he will repay a particular debt. Little or no consideration is given to the very real possibility of financial reversal which would preclude repayment.[24] In addition, some creditors have indicated almost perfect confidence in their ability to "judge people."

On the other hand, there is growing suspicion among persons doing research on bankruptcy and its ramifications that creditors, because of their present ability to pass a large part of the resultant losses on to others, are not as concerned with the rapidly increasing use of bankruptcy as they might be.[25] It may be that creditors are honestly interested in curbing the rapid growth of bankruptcy, realizing the inherent danger in allowing increasing credit losses to affect the cost of consumer credit more and more over time, but feel that potential

[24]Financial reversal as used here is meant to include several conditions, including death or serious illness of the debtor without provision for continued income for the family; large, unpredicted debts, such as emergency medical costs for the debtor or his family for which no provision for payment has been made; sudden loss of employment (and resultant loss of income) and other contingencies which result in sudden impairment of the debtor's ability to pay.

[25]See Countryman, *op. cit.*, pp. 1458-1460, and George Allen Brunner, *Personal Bankruptcies: Trends and Characteristics* (Columbus: Ohio State University, 1965), pp. 106-107.

debtors without real ability to pay are at fault for seeking credit in the first place.[26] Even those who feel their own liberal credit terms may be a cause of increased bankruptcy are aware of how their customers would react to more strict credit requirements imposed by only one of several competitive businesses.

Increasing economic activity, especially increasing use of credit, could be expected to result in some increasing use of bankruptcy. But since 1950, growth both in the frequency and value of bankruptcy proceedings resulting in discharges has far outstripped the growth in economic activity. People are apparently becoming more aware of bankruptcy as a means of eliminating burdensome debt, and they have fewer reservations now about using bankruptcy than they did 15 years ago. If bankruptcy growth in the nation, and especially in Montana, continues at the same rate as during the latter part of the 1950-1964 period, resulting credit losses will be not only a significant economic factor, but a serious economic problem. Perhaps we should view the problem as one stemming not only from consumers' increased demands for credit and their inability to use it properly, but also from the lack of creditors' abilities to extend credit only where credit is due.

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[26]cf., Brunner, *op. cit.*, pp. 1-10.